# K R O G E R

*For I dipp'd into the future,*
*far as human eye could see,*
*Saw the Vision of the world,*
*and all the wonder that would be.*
***Alfred, Lord Tennyson***

THE KROGER CO.
ANNUAL REPORT
1982

# FINANCIAL HIGHLIGHTS

| | 1982 | 1981 | Change |
|---|---|---|---|
| Sales | **$11.9 billion** | $11.3 billion | + 5.6% |
| Earnings from continuing operations | **$143.8 million** | $129.5 million | +11.0% |
| Net earnings | **$143.8 million** | $128.0 million | +12.3% |
| Earnings per share | | | |
| From continuing operations: | | | |
| Primary | **$4.84** | $4.56 | + $.28 |
| Fully diluted | **$4.64** | $4.43 | |
| Net earnings: | | | |
| Primary | **$4.84** | $4.51 | $.33 |
| Fully diluted | **$4.64** | $4.38 | + $.26 |
| Dividends paid on common stock | **$49.8 million** | $43.8 million | +13.8% |
| Per share of common stock | **$1.76** | $1.57 | + $.19 |
| Return on average equity | **17.1%** | 17.3% | |
| Capital expenditures | **$388.6 million** | $260.2 million | +49.3% |
| Real estate data | | | |
| Food stores | | | |
| Opened | **101** | 111 | |
| Remodeled | **85** | 57 | |
| Total area (sq. ft.) | **37.1 million** | 37.0 million | |
| Drug stores | | | |
| Opened and acquired | **77** | 57 | |
| Remodeled | **25** | 15 | |
| Total area (sq. ft.) | **6.3 million** | 5.7 million | |

# 1982 FINANCIAL SUMMARY

Sales and earnings of The Kroger Co. in 1982 increased for the seventh consecutive year. Sales rose 5.6% and net earnings increased 12.3%.

Sales for 1982 were $11.9 billion, an increase of $635 million from 1981 sales of $11.3 billion. Sales for both years include the 65 southern California stores which were sold in the third quarter. The increase would have been 8.1% if sales for the southern California stores are excluded from both years.

Net earnings were $143.8 million or $4.64 per share in 1982, versus $128.0 million or $4.38 per share for the prior year.

In line with Kroger's policy of sharing our progress with the owners of our business, the quarterly dividend was increased from 43¢ to 47¢ per share, effective with the December 1, 1982, payment. This brings the indicated annual dividend rate to $1.88 per share and represents the ninth increase in the past seven years. Dividends paid in 1982 totaled $1.76 per common share.

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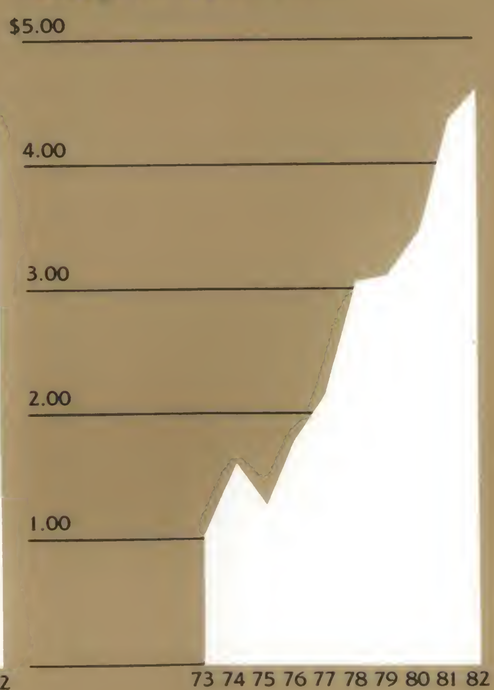
**Cover:**
Throughout the 100-year history of The Kroger Co., we have always tried to anticipate, to look into the future, and to renew our commitment to the shoppers we serve. In doing so, we provide a link between Kroger and our customers through succeeding generations.

**Inside Back Cover:**
General Corporate Information

**Sales** (Billions)


**Earnings Per Share** (Dollars)



# THE KROGER CO.—1983

## THE KROGER CO.

The Kroger Co., which in 1983 is celebrating the 100th anniversary of its founding, operates food stores, drug stores, convenience stores and manufacturing facilities in 32 states, with operations stretching from coast to coast. In January, 1983, Kroger completed a merger with Dillon Companies, Inc., of Hutchinson, KS. There are approximately 156,000 Kroger employees.

### Kroger Food Stores

The company's largest operation is Kroger Food Stores, with 1,199 food stores in 19 southern and midwestern states at the end of 1982. More than 95% of food store square footage is new or remodeled during the past 10 years. Most of these improved facilities are in the large superstore or combination store category, carrying a broad line of food and non-food items and featuring service specialty shops such as delicatessens, in-store fresh bakeries, as well as cheese, floral and health foods shops, cosmetic/fragrance boutiques, service seafood and meat shops. Many also provide pharmacies and restaurants. Of the 101 food stores opened during 1982, 58 were in the combination store category—most in the 45,000 square foot size. Additionally, 19 stores were enlarged and remodeled into the combination store concept. The more than 60 new stores planned for 1983 will average 40,000 square feet in size. Approximately 70% will be combination stores and more than two-thirds will be located in the Sunbelt.

### Dillon Companies, Inc.

Dillon Companies of Hutchinson, KS, which merged with Kroger on January 25, 1983, is a multi-regional operator of 219 supermarkets, 352 convenience stores and 15 small, family apparel stores. Its stores are located in 12 states primarily west of the Mississippi in such growth areas of the country as Colorado, Arizona, California and Kansas. Dillon operates supermarkets under the names of King Soopers, Dillons Food Stores, Fry's Food Stores, City Market, Gerbes Supermarkets, and Sav-Mor. About half the supermarkets come in the large combination store category, with service specialty departments and a wide variety of merchandise. The 12 new supermarkets to be opened during 1983 will average approximately 45,000 square feet in size. Dillon's convenience stores, under the names of Kwik Shop, Quik Stop Markets, and Time Saver Stores, are located in northern California, Kansas, Nebraska, Iowa and the New Orleans metropolitan area. Eighteen new convenience stores are planned for 1983 openings. Other operations include D. G. Calhoun, Inc., which operates 15 small, family apparel stores in Kansas.

### Processing Facilities

Kroger also processes many food products sold in its food stores, a tradition which began before the turn of the century. The company operates 43 food processing plants, primarily serving the food stores. Included are 11 bakeries and 14 dairies, in addition to plants processing cheese, eggs, peanut butter, pet foods, delicatessen items, pharmaceuticals, film processing, ice, carbonated beverages and snack foods, as well as a trout farm and a general processing plant where such products as preserves, salad dressings and other items are processed. In 1983, Kroger will open a whey conversion plant as a joint venture with Corning Glass Works that will convert whey from Kroger dairies into yeast for the bakeries, the first such commercial application in the world. Also slated for 1983 is a new research and development center adjacent to Northern Kentucky University.

### SupeRx Drug Stores

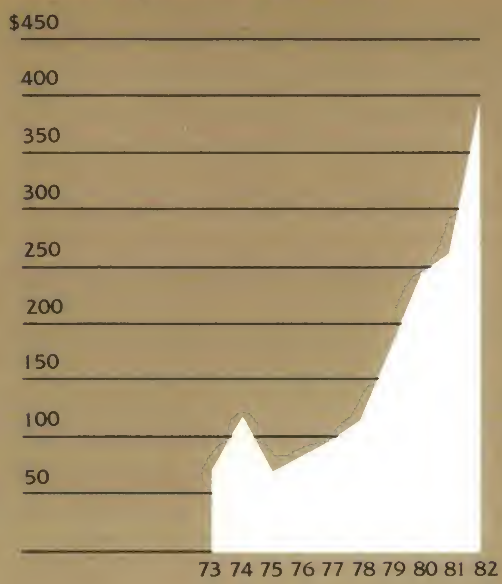
With 563 stores in 20 states at year-end 1982, SupeRx is one of the nation's larger drug store chains. Although SupeRx operates a majority of its drug stores in states where Kroger Food Stores are located, drug stores also are located in Arizona, Connecticut, Florida, New Jersey and New York. A major revitalization program is under way, modernizing drug store facilities and re-focusing merchandising for greater effectiveness. SupeRx also operates six SupeRx Food and Drug Stores in Florida and is testing drug/convenience stores. SupeRx plans to open 64 new stores during 1983.


Kroger Food Stores
Dillon Food Stores
Kroger Manufacturing Facilities
Dillon Manufacturing Facilities

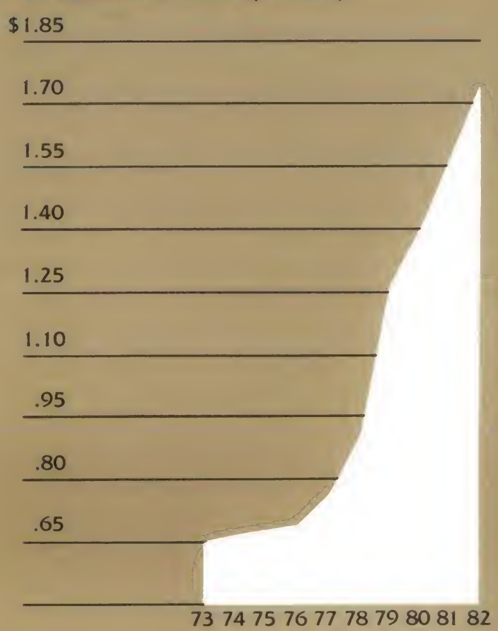

SupeRx Drug Stores
Dillon Convenience Stores

# TO OUR FELLOW SHAREOWNERS

**Capital Expenditures** (Millions)




**Dividends Per Share of Common Stock** (Dollars)




The year of 1982 was a benchmark in the continuing growth of The Kroger Co.

In an extremely difficult operating environment that deteriorated as the year ended, Kroger reported higher sales and profits. In addition, several major steps were undertaken during 1982 to place the company on an even stronger and increasingly versatile footing for the coming years.

Foremost of these was our merger with Dillon Companies, Inc., completed in January, 1983. Dillon's operations significantly enlarge Kroger's marketing base into areas of high population growth and expanding consumer purchasing power, and its superb management skills will blend smoothly with our own.

During 1982, Kroger continued to build and remodel store facilities to insure that we operate the best stores in the most attractive markets. At the same time, with the disposition of our Market Basket division and the closing of other underproductive stores, we demonstrated our commitment to evaluate corporate assets critically, and make difficult decisions when appropriate, in order to assure long range profitability.

Kroger's ability to operate under varying market and economic conditions is attributable, I believe, to our insistence upon strategic planning both for the short and long term. For 1983, our plan is simple: Kroger must revitalize earnings growth and keep close rein on operating expenses in order to counter the adverse impacts of the current economy and the dilution resulting from the Dillon merger. Our three-year goals envision substantially higher sales and earnings targets.

Achieving these goals will require the same kind of dedicated and creative effort that has sustained Kroger over its first 100 years. That effort has provided the company with many fundamental strengths, and with the addition of Dillon's merchandising and management talent, we are on solid footing as we move into our second one hundred year era.

**1982 Review**

This past year was a time of substantial change for the company.

- The majority of new facilities opened in 1982 were combination stores, of which we now operate 237.
- The disposition of the Market Basket division in southern California was accomplished for the long range benefit of the company. Gains from the transaction are being used partially to offset costs associated with the sale or disposal of other underproductive store facilities.
- Cost containment and productivity improvement were areas of increased attention during the year. The continuing development and installation of management information systems have enhanced the company's ability to operate an increasingly complex business efficiently. Kroger now has 414 food stores equipped with electronic scanner checkout systems, and plans to add 147 during 1983. Transportation costs continue to decline as a percent of sales and compare favorably with the industry. Technological advances in this area hold promise for further reductions in 1983 and beyond.
- Hand in hand with these technological developments, Kroger's programs to train, keep and promote talented people continue to expand. The company's extensive training program is being used as a testing area for such promising concepts as team building, quality of work life management and other techniques designed to bolster the productivity of Kroger's thousands of employees. In the long run, these efforts will contribute directly to improved corporate performance.

*As long as we keep the store and the customers it serves at the very heart of our business, Kroger will continue to grow and prosper.*

• Capital expenditures in 1982 totaled $388.6 million. As in the past, funds for new facilities primarily were generated internally, but other forms of financing also were used.

**The Food Store**

As long as we keep the store and the customers it serves at the very heart of our business, Kroger will continue to grow and prosper. It is in the store where the talents of our people and their ideas come together to present a shopping environment that is appealing to shoppers and effective for us.

In an intensely competitive business, our retail merchandising concepts are contemporary and dynamic. One-stop-shopping convenience is drawing an increasing number of shoppers who use Kroger as their only food store. Moreover, the variety of offerings on the shelves of today's Kroger food store attract both the "upscale" customer looking for the tastiest imported cheese, as well as the budget-conscious shopper who can select Cost Cutter items and not skimp on value.

The soundness of this approach is reflected in our retail performance. In a period of low food price inflation and general economic uncertainty, we continued to demonstrate *expanding* market strength overall and in most of the markets we serve. The strong acceptance of the Cost Cutter line, moreover, indicates that we have precisely the right strategy for growing numbers of people in these difficult times. The success of our many specialty offerings, such as fresh seafood and floral arrangements, demonstrates that quality, service and convenience are a powerful merchandising combination and a substantial profit-enhancing opportunity for the company.

Beyond these performance measurements, our stores continued during the year to be exciting places for new ideas. Extensive consumer research tells us what shoppers want in a food store, and we pay attention. As a result, we are willing to test new concepts, including financial centers in Columbus and B.K.'s Greenhouse restaurants in Atlanta and St. Louis, and we continued to strengthen both the variety and the quality of our non-food and general merchandise lines.

We intend to remain innovative and receptive to change for a very simple reason: the nature of food retailing in modern-day America demands it. The preferences of consumers constantly shift, and external circumstances such as a sluggish economy have an immediate impact on shopping behavior. In order to be responsive to these shoppers, Kroger continues to develop new merchandising concepts in order to anticipate and capitalize upon changing market opportunities.

**Kroger Manufacturing**

During 1982, the company was able to demonstrate its versatility by expanding profit opportunities presented by Kroger-manufactured products.

Manufacturing of food and non-food products is as evolutionary as our retailing strategies. Again, creativity and a willingness to try new ideas characterize this fast-growing segment of corporate operations.

At year end, Kroger operated 34 manufacturing facilities. New during 1982 were an imported products plant in South Carolina, a sugar-based products plant and a new dairy in Kentucky, and a new cheese plant in Indiana, the company's second.

Construction began in 1982 on the innovative whey conversion plant in Kentucky, and on manufacturing's research and development facility adjacent to Northern Kentucky University.

**SupeRx**

SupeRx Drug Stores in 1982 had sales of $716.4 million, up 5% from the

prior year. Pre-tax operating profit reached $15.2 million, compared to $6.5 million in 1981.

SupeRx continues to show improvement, particularly as new ideas are implemented to re-focus merchandising strategies. This strategy, in contrast to the one-stop shopping convenience of our food stores, emphasizes total convenience for the customer who needs fewer items quickly.

In Florida, SupeRx Food and Drug combination stores continued to perform well; six were operating by the end of the year.

During the year, SupeRx opened 48 stores and added 29 stores through acquisitions of existing groups of stores in Illinois, Ohio and Florida. Additionally, the company greatly expanded its distribution capabilities; by the end of 1982, approximately 56% of SupeRx retail facilities were supplied by company distribution centers, compared with 20% in the prior year.

**The Dillon Blend**

We are excited about Dillon Companies, Inc., joining the Kroger team. We have merged with a solidly performing company that has outstanding credentials, excellent sales and profits, quality people at all ranks, and very attractive stores.

Dillon's food store operations include 219 supermarkets under a variety of trade names in nine states west of the Mississippi River. These stores are strong market performers in growing areas of the nation, particularly Colorado, Arizona and Kansas.

Dillon also operates 352 convenience stores in the midwest, northern California and the New Orleans metropolitan area. In addition to the normal assortment of staple food items and general merchandise, Dillon's convenience stores offer snack foods, fountain drinks and, in approximately 250 locations, gasoline.

The synergism presented by our association with Dillon holds great promise. Our manufacturing and procurement capabilities should blend well with Dillon's retail strategies, for example, and their successful experience with large combination stores, such as those operated by King Soopers in Denver, will be a resource that Kroger can use to improve its own performance.

Dillon's managers and senior executives are highly respected, and we intend to learn from our association with them. We are confident we will build a mutually productive relationship, and to indicate our intention to use their talents and perspective, three Dillon executives have joined Kroger's Board. They are Ray Dillon, Jr., chairman; Richard W. Dillon, vice chairman; and Joseph A. Pichler, president.

**1983 and Beyond**

Clearly, The Kroger Co. begins its second one hundred years as virtually a new company. We anticipate an exciting and successful year. The extensive anniversary activities now underway will provide the company with enthusiasm and a renewal of our long-standing commitment to quality and innovation. The addition of Dillon opens new avenues for growth and opportunity. Both SupeRx and our manufacturing operations are positioned to expand significantly their contribution to overall corporate profits. We will continue to be aggressive in our capital expenditure program, with approximately $400 million budgeted for 1983.

In order to assure our continued growth, Kroger must develop and use talented managers from all parts of the company. To prepare ourselves for the special challenges ahead, a number of important management changes have been made. William G. Kagler is now president of the company, and John A. Cornett has been elected vice chairman. Richard M. Koster and Charles L. Thomas, additionally, have been elected senior vice presidents and given larger responsibilities. We also have implemented important changes within the ranks of our management structure, and we expect these people to contribute significantly to Kroger's performance in the years ahead.

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We are different now, in many ways, than we were a year ago, or three years ago, or a decade ago. But we really are very much the same. We are guided by basic strategies and principles that provide a solid foundation on which to build change and expand opportunity. And we remain accessible to and eager for new ways to operate each facet of our business. This has been the true legacy of our first 100 years, and it is our catalyst for the future.

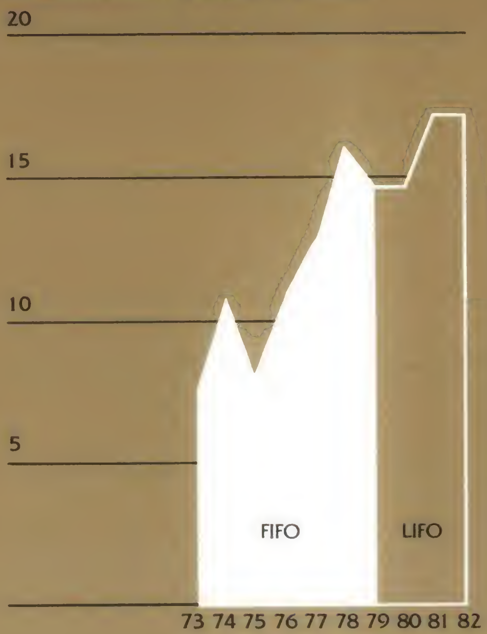
Sincerely,

Lyle Everingham

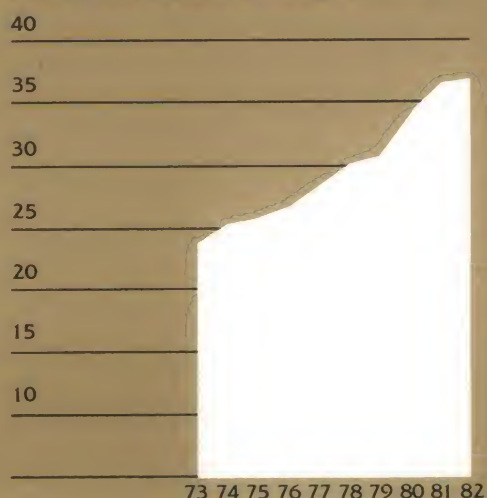
Chairman and Chief Executive Officer
March 30, 1983

# YEAR IN REVIEW

**Return on Average Shareowners' Equity** (Percent)




**Food Store Square Footage** (Million)




The performance of The Kroger Co. in 1982 was the result of operating and merchandising strategies that fit the times.

For a number of Americans, the year meant stretching food dollars and tightening belts in the face of a slumping national economy and rising unemployment.

Kroger was there, responding with products of genuine value and consistent quality.

For others, 1982 meant maintaining or enhancing a style of life in which quality of product and service were of primary importance.

Kroger was there, responding with an array of in-store service specialty shops featuring everything from seafood to perfume to fresh baked bread, and staffed with well-trained and knowledgeable personnel.

For still others—perhaps a majority—the year was a time of trying to make the best of an uncertain situation.

Kroger was there, responding with attractive selections of food and general merchandise displayed in well-lighted, cheerful and convenient store facilities.

Throughout the year, Kroger demonstrated time and time again the company's understanding of the needs of the millions of individuals who shop in our retail stores.

Several factors account for this ability. We continue to listen to the customer through our extensive consumer and market research. And again in 1982, we were responsive to what our customers told us they want in a food store. Our manufacturing and procurement divisions insured that our shelves were stocked with a full line of quality merchandise for a virtually limitless array of tastes and budgets. Kroger private label merchandise had especially strong sales during the year. They proved to be increasingly attractive to shoppers who wanted to save on food spending and liked having a wide choice of product alternatives.

The fact that we were able to perform well in such a difficult environment proves again the soundness of our operating and marketing strategies.

Over the past decade, these strategies have guided the company through favorable times and difficult years, as well. Kroger's record of growth and profitability in that span of years speaks for itself.

Two years ago in the 1980 Annual Report, Kroger outlined these strategies. Because they so directly affected the outcome of 1982 operating results, the relevant portions deserve to be reiterated, with specific reference to the ways in which they were implemented in the current business environment:

### Basic Strategies

*"We will remain committed to staying contemporary."*

The focus of our creative effort, once again, was the Kroger food store—the very heart of our business. In terms of physical size, store facilities continued to grow larger, with square footage increasing to 37.1 million square feet, and average store size reaching 30,978 square feet. Of the 101 new stores opened during 1982, 58 were combination stores, and 19 existing stores were enlarged to the combo format.

With two-income families now the norm, with smaller families and an increasingly older population, the shopper of today is much different than the shopper of just five or 10 years ago. Convenience, variety and service are attributes every shopper desires, and Kroger is one of the industry's strongest proponents of retail facilities designed to meet these needs.

Besides offering spacious shopping environments, Kroger food stores set the pattern for one-stop-shopping

convenience through their service specialty departments. By year end, a majority of stores contained full service delicatessens and bakeries, and more than half the company's 1,199 stores had full line floral shops. Cheese and service seafood shops continued to show sales strength, and in-store pharmacies, health food and cosmetic/fragrance departments were achieving increasingly positive results.

Again in 1982, the company continued to test new marketing opportunities, such as financial centers and upscale, contemporary restaurants. These projects represent Kroger's long-standing policy of testing new merchandising ideas under actual market conditions. They also express our willingness to explore further the convenience concept within the food store setting.

SupeRx, meantime, continued to focus its merchandising attention on the development of facilities which are responsive to another aspect of shopping convenience: a store for shoppers who need a shorter list of items more quickly. These stores, with about 1,000 food items beyond the typical snack food selection, are planned for high traffic locations.

*"We will invest primarily in regions demonstrating increased population and expanded consumer purchasing power."*

During 1982, Kroger invested $388.6 million, primarily in new or remodeled stores and manufacturing plants. Our strength in the major markets we serve, particularly in such urban areas as Atlanta, Houston, Dallas and Nashville, continued to grow.

The merger with Dillon Companies, Inc., which was announced in mid-November and completed early in 1983, provides Kroger with new markets in several of the nation's fastest growing areas, such as Colorado, Arizona and the Rocky Mountain West. The merger was a unique opportunity to join with a respected, efficiently managed retailing peer. From a strategic perspective, it also can be viewed as a logical implementation of a philosophy outlined three years ago.

As the geographic center of our operating area continues to move south, Kroger's new manufacturing centers increasingly are located closer to the majority of our stores. These facilities also bring processing operations much nearer to sources of supply, a factor that greatly reduces transportation and shipping costs.

In 1982, an imported products plant opened in Pontiac, S.C., where coffee, tea, spices, sauce and gravy mixes will be processed. Ingredients for these products arrive at Atlantic port terminals and are transported to the new facility, a much shorter distance than previously required when processing was located in Cincinnati. Also during the year, a sugar-based products plant began operation in Murray, KY., and Kroger also opened a new dairy in Winchester, KY., and a cheese plant in Crawfordsville, IN., the company's second.

*"We will keep our balance sheet strong and our financial ratios supportive of favorable ratings by the investment community."*

The investment community reacted favorably to Kroger's two primary financial undertakings announced during 1982: the merger with Dillon for an exchange of common stock, and the implementation of a store closing program which included the disposition of the company's Market Basket division. Portions of the gain from the Market Basket transaction are being

Shoppers carry home fresh-made spinach, whole wheat, regular or tomato noodles and spaghetti from this Kroger Pasta Shop.

used to offset the cost of the balance of the store closing program. Even with the dilution of Kroger common stock resulting from the Dillon merger, the company continues to be evaluated positively for long term growth.

The capital building program remained strong, fueled by Kroger's anticipatory financing program which helps assure a steady flow of funds for our real estate needs. This is being augmented by funds coming from the company's ongoing disposal of underproductive assets.

Kroger's dividend was again raised in 1982, to 47 cents per quarter from 43 cents. This marked the seventh consecutive year of dividend increases, and the fourth increase since a two-for-one stock split in April, 1979.

Early in 1983, Standard & Poor's

*Even in the face of stiffer competition, millions of satisfied shoppers feel Kroger's prices represent our greatest single attraction.*

raised its rating on Kroger senior debt to A+ from A.

*"We will conduct a disciplined reappraisal of unproductive assets each year."*

Kroger in 1982 moved ahead to insure maximum return on its assets in a number of important ways.

The Market Basket disposition was the result of a careful review of current results and a realistic assessment of future potential. The division was never consistently able to meet sales and earnings expectations. Although the decision to leave southern California was painful, the long term impact on overall corporate performance is expected to be significantly favorable.

In addition to the disposition of Market Basket, 95 other food store facilities were closed in 1982, leaving the company with 1,199 facilities at year end, or 59 less than when the year began.

Late in the year, the company ceased the manufacture of candy products at Springdale, OH., due to a steadily declining candy market.

In sum, Kroger finished 1982 stronger than it had been at the beginning of the year. We adhered to our basic marketing and operating strategies, and these helped bring us through an uncertain economic landscape that no one realistically could have foreseen as the year began. Yet we were also able to capitalize on several significant opportunities to enhance our long-term growth prospects, culminating in the merger with Dillon. Our sales and earnings performance, our ability to respond to the needs of our shoppers, and our willingness to see the long range, testify both to the importance of our planning and its fundamental soundness.

**The Challenges of 1983**

The year just past was by any measure a milestone in the corporate history of The Kroger Co.

A modern Dillon combination store offers one-stop-shopping.

But its true significance to the company is what it portends as the company embarks on its second century of operation.

The national economy will again play a crucial role in determining our performance during this centennial year. For the near term, recovery from the weak economy of 1982 is expected to proceed slowly through the first half of 1983 and then gain momentum through the remainder of the year and into the next.

However, while sales gains over the past decade were influenced by a food inflation rate that averaged 8%, a much lower rate is anticipated this year. Thus, sales gains likely will be more tonnage-related and less influenced by inflation. At the same time, regional economic performance will have a substantial effect on Kroger's sales and earnings. The ravages of unemployment have played havoc with the economies of some sections of the Sunbelt, and the pace of recovery in the industrial Midwest is still uncertain.

As a result, Kroger's profitability will largely depend on internal performance—our imaginative merchandising plans, the effectiveness of our cost management, our continuing efforts to bolster productivity, and how smoothly we blend the many advantages of the Dillon merger into our operations.

We believe we are prepared to meet these challenges. Our operating and marketing strategies serve as our guide. But in addition, we remain convinced that we can continue to grow and expand—even in a difficult operating environment—by capitalizing upon a number of built-in attributes that very few other retailers can match.

Kroger's Spotlight Coffee is decked out in a golden package to commemorate the 100th Anniversary.

**Kroger's Strengths**

The Kroger food store of the 1980s is, we believe, the company's strongest and most important attribute.

The food stores operated by Kroger and Dillon feature the very latest and most successful retailing concepts, and our consumer research tells us these concepts are precisely on target with customers' needs.

For 1983, Kroger expects capital outlays of about $330 million. Plans call for approximately 65 new Kroger food stores, and approximately 100 remodels. Dillon's plans call for 12 new combination stores and 18 convenience stores, and overall capital expenditures of about $80 million. Kroger's store building plans further our long-standing commitment to build and operate only the most modern and efficient retail facilities. It is this unswerving commitment to make the store the focal point of our effort that is the key to success.

In terms of price, we continue to enjoy a solid reputation for offering consistently good values. Even in the face of stiffer competition, millions of satisfied shoppers feel Kroger's prices represent our greatest single attraction.

Price, of course, is even more significant a factor in a shopper's mind during poor economic times, especially when customers are trying to stretch their food dollars.

Here Kroger is especially responsive. The company's private label and Cost Cutter label products, whether made by us or to our strict specifications, are considered by shoppers to be attractive in price and consistent in quality. Dillon's extensive selection of generic items offers shoppers yet another cost-saving alternative.

Also, Kroger consistently has led the way in creating specialty offerings. Today, specialty shops appeal to a broad range of tastes and budgets.

Their appeal is simple: they add zest to shopping. Customers tell us they like the quality and freshness of the products offered in the shops, and they also like the convenience of being able to purchase just-baked bread or the tastiest imported cheese at the same time they buy their grocery staples.

During 1983, we plan to add approximately 200 new floral shops, 150 health foods departments, 130 service seafood shops and a like number of service meat counters, plus about 120 in-store bakeries, 90 new delis and 80 cheese shops. Dillon's expansion in specialty offerings also will continue, with 15 delis, 14 bakeries, 13 pharmacies and eight health foods departments planned for the year.

In the years to come, Kroger will continue to test the concept of specialty offerings. Financial services and full-service restaurants are two of the concepts we will test during 1983.

Another strength of the company, and one that grows in importance, is our manufacturing capability.

Our manufacturing and processing facilities produce more than 3,000 different items to be sold under our labels in Kroger food stores. Kroger's products are valued for their consistent quality—a heritage stretching back to Barney Kroger himself, whose concern for quality was strong and constant.

Private label products now account for approximately 25% of our total food store sales, and we make or process about 18% ourselves. Even as we build new facilities to service our stores, we have the capacity to serve non-Kroger outlets both as a wholesaler and as a manufacturer.

In 1983, two innovative manufacturing-related projects will come on stream. One is the Nutrisearch, Inc. whey conversion facility at Winchester, KY., a joint project with Corning Glass Works in which by-products of cottage cheese production will be converted to baker's yeast, sugar syrup and protein—products which then can be used to make bread and other items. Another is the new research and development center adjacent to the campus of Northern Kentucky University. This 62,000-square-foot facility will assure Kroger's leadership position in the industry as a developer of quality products. Also during 1983, we will integrate into our processing operations three recent acquisitions: a carbonated beverage plant in Bluefield, VA., a snack plant in Atlanta, and

Kroger buyers shop round-the-world for the best-quality fresh fruits and vegetables.

*Our SupeRx Drug Store division is indicating sustained progress as a contributor to overall profit performance.*

a trout farm in rural Arkansas.

Another area of corporate performance that is drawing increased attention is productivity. Kroger is one of the nation's largest employers, and also one of its leading job creators—4,691 new jobs in 1982 alone—and the productivity of our employees is a special priority.

Our efforts in the area of productivity improvement are under way from field to store, from corporate headquarters to the cab of every Kroger truck. In the stores, everything from energy control to inventory ordering is being bolstered with the latest computer technology. About one-third of our stores use electronic scanners at the checkout line, and the savings to store operations, both in direct labor costs and improved service, are a significant contributor to operating performance.

Although the use of scanners is the most visible manifestation of computer technology, innovations to improve the store's life support system—its merchandise delivery procedure—also are being implemented and refined.

The modern Kroger store, in fact, sits at the pinnacle of an increasingly sophisticated network of distribution centers linked by one of the industry's most efficient transportation systems. With "backhaul" flexibility, computerized inventory systems, and with improved efficiencies in the operation of our large truck fleet, Kroger's management of distribution costs is a sterling example of how cost containment contributes substantially to overall corporate profits.

State-of-the-art electronic wizardry assists the company's efforts to strengthen efficiency, but the role of the individual in productivity improvement is still central.

A number of promising projects are under study in actual store and marketing area conditions, testing the premise that a more informed and involved employee will be more efficient and also more supportive of the goals of his or her unit, as well as overall corporate operating philosophy. These "Quality of Work Life" programs are now active in retail stores in the Southland and Carolinas

Pharmacy remains the heart of a modern SupeRx drug store. The company's revitalization program is giving a new look to SupeRx stores. As merchandising is re-focused, shoppers' needs are being addressed for everything from convenience foods to greeting cards. But as has been the case since the first SupeRx store opened in 1961, the base on which it is all built is the pharmacy.

marketing areas and in several manufacturing facilities. During 1983, similar programs will be introduced in other manufacturing facilities, and in additional stores.

At the same time, Kroger's extensive training programs continue to provide the company with skillful, service-oriented employees. This training is ongoing through an employee's career with Kroger, and features on-the-job instruction through the use of audio-visual material on everything from flower arranging to meat trimming. Libraries of instruction programs have been established in more than 800 stores.

**SupeRx Drug Stores**

Our SupeRx Drug Store division is indicating sustained progress as a contributor to overall profit performance. The division's extensive revitalization efforts in both new facilities and merchandising strategy are showing: such key performance indicators as return on assets, inventory turnover and sales per unit all improved during 1982.

Continued progress is expected this year. SupeRx plans to open more than 60 new stores, bringing the year-end total to 596 facilities.

The refinement of SupeRx's marketing philosophy is helping the division establish a more clearly defined image as a provider of competitively priced health care and related products. The basic components of this philosophy—quality, value and convenience—capitalize on the growing awareness of Americans of the importance of personal health care. The current SupeRx concept focuses on a 10,000-square-foot facility with a pharmacy at its heart, and features cosmetics, health and beauty aids, health foods, optical centers, greeting cards, reading centers and photo finishing.

SupeRx facilities also are becoming important outlets for private-label products, many of which are being supplied by Kroger manufacturing plants. It is expected that the number of private-label items carried in SupeRx will continue to increase.

The company's new cheese plant in Indiana will help meet customer demand. Above, cheese is packaged to be sent on its way to Kroger stores.

**Corporate Responsibility**

The Kroger Co. is committed to an active and ongoing effort to be a positive presence in the communities we serve. We perceive this effort as a corporate task equivalent to our goal of generating profit and maximizing return on the investment of the owners of the company.

Our commitment is undertaken both through the personal involvement of Kroger people in hundreds of civic and charitable activities, and also through a corporate contributions program.

In 1982, Kroger made contributions to non-profit charitable organizations totaling $1,493,000. About 60% of this total was given to United Way campaigns in the several hundred communities in which we operate. The remainder went to a variety of other civic, cultural and educational activities, with special emphasis on consumer- or nutrition-related projects.

In addition to the formal contributions program, the various operating units of the company made product or cash contributions totaling $548,000 to support many community undertakings.

The total of these activities during the year was $2,041,000, which represents .98% of our pre-tax earnings.

Even employees of long tenure find themselves, on occasion, filled with a sense of wonder at the scope and complexity and breadth of our company.

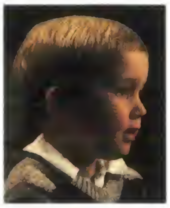
To the casual observer, The Kroger Co. is, at most, a food store where the necessities of life are purchased. Little thought is given to how the shelves and bins of a modern Kroger Food Store are stocked, or where the thousands of different items come from, or how they are transported to the store. They are simply presumed to be there—the oranges from California, the beef from Texas, the butter and cheese from Minnesota, the imported Italian wine and the can of cut green beans—whenever they are needed.

But we know there is far more to a food store than a large building filled with merchandise. To operate these stores, to attract customers week after week, year after year, we are required to operate a vast and integrated business, a procurement and distribution and warehouse and advertising and merchandising system that, in effect, is its own small-scale society.

What is the nature of this society? What factors within Kroger over the past century have shaped its personality, defined its style, and brought its distinctive character into sharper focus? What is it, really, that causes even those who are a part of the company to sometimes wonder at it all?

Perhaps it is these things . . .

## AN ABIDING QUALITY



Quality is, for Kroger, an obligation and a discipline. We always have insisted that in exchange for the trust of our customers, we will give them—we must give them—honest, consistent value. To fulfill that responsibility, according to self-imposed and difficult measurements of excellence, has required uncommon discipline on the part of thousands of individuals over many years.

But why do we do this? Why persist in the pursuit of quality?

The answer lies in the character of this company. It is sometimes described by outsiders as the "Kroger difference." We have, since our founding a century ago, attempted to run our business in a different manner and style than our peers. The dozens of innovations credited to the company through the years—bulk produce, scientific food quality testing, nutrition information, and many others—reflect a relentless commitment to find new and better ways to conduct our enterprise. Each of these has helped Kroger gain a competitive edge in many operating areas.

But one has the sense there is something more to be said in this regard: over a century, we have internalized quality so that it is always present in the value of our products and in the skill and service of our employees.

We have, as a result, come to this point: Quality is not something considered separately from other facets of our business. Instead, it is a concept ingrained into company priorities and inculcated in the outlook and perspective of our employees.

It is a quality that abides.

***The essential quality of a flower is its timeless and enduring beauty. In Kroger Floral Shops, as in other parts of the store, we bring to shoppers a quality of products and service that is consistent, convenient, affordable—and beautiful.***

# A PLACE OF IDEAS

Kroger takes chances.

It is a matter of planning for opportunity, and then having the vitality to pursue in reality what is imagined in the mind.

What is required to do this well is a fine balancing act: planning must derive from a disciplined, well-coordinated center, while opportunities—new ideas for profitable growth—most often first present themselves at the periphery. It is at the center where the resources must be managed and allocated to meet Kroger's commitments. But it is on the cutting edge where we must shine with a special brilliance.

This two-pronged approach is fundamental to us. The planning enables a complex process to operate smoothly and efficiently. There is, as a result, a sense of enormous order in every contact with The Kroger Co. At the same time, and at many levels of the company, there is abundant scope for innovation, a willingness to imagine the future.

We take risks, doing things this way. We test and experiment constantly. We go against the grain, whether it is unwrapping our produce or attempting to merchandise a new concept, such as in-store financial centers. Sometimes it doesn't work, or work very well, yet we cannot hesitate. The needs of our customers change, and so must we.

So what we have here is something beyond the constantly evolving retail food store. It is something not so readily apparent, but something very much revealing about this company: our stores are marketplaces of the imagination.

***An idea takes form: In Atlanta and St. Louis, we are testing the concept that a full-service restaurant, B.K.'s Greenhouse, can exist within a food store setting and draw customers who want a good meal, fine service, and extraordinary convenience.***

# PEOPLE OF PURPOSE

Every day, The Kroger Co. is perceived by millions of people through the actions of individual employees.

A friendly greeting, assistance in locating an item, an efficient store clerk—these are the crucial points of contact between shopper and employee. Done well, we retain a customer's loyalty; done poorly, or not at all, and our business is in jeopardy.

The people we employ express our company's fundamental reason for existence. Our purpose is to serve the needs of many people of differing tastes and incomes. Kroger is a large employer in a particularly competitive business, and we must rely upon the ability and intelligence and skill of our people to insure that we grow and prosper.

Yet as a company, we must also serve the needs of our employees, and this becomes another purpose, equally as important. We must create opportunity for growth and prosperity. We must encourage creativity and reward efficiency by letting our employees use their intelligence and abilities to their best advantage. They must flourish as individuals.

As a corporation, if we do that well, there will be friendly greetings, helpful assistance, and efficient service for all the millions who come to our stores.

And thus, a bond of common purpose is forged, linking store and shopper, employee and company.

***In New Castle, Indiana, Kroger store employees meet regularly to discuss plans, store operations, and new ideas. Increasingly throughout the company, regular meetings like this one help insure open lines of communication and a sense of common purpose.***

# A COMMUNITY CONCERN

In the tapestry of every community, a food store is as commonplace as a fire station, or a public library, or a school building. But we are different from these other familiar places: ours is a private enterprise which people can patronize or ignore at their choosing. To earn a profit—our fundamental obligation—Kroger must operate according to the detailed plans of our managers and employees.

But if we ignore the obligations of the larger community, we would fail just as surely as we would if we ignored the needs of our customers.

Through the years, Kroger has recognized its role in the larger society through substantial donations to civic, charitable and educational activities. Our employees have contributed time and talent to assist community projects. We also have taken unusual steps to assist our customers in knowing more about the products they purchase—for example, the amount of protein in certain cuts of meat, or the best way to prepare vegetables to retain their nutritional value. From the days of Barney Kroger, we always have tried to share.

Today, we are expected to do even more. We become more active and more involved in city after city, focusing on those programs and efforts with which we have familiarity or expertise—emergency food programs, nutrition information and the like—areas where we can contribute our talent and resources meaningfully.

It is involvement that expands our company's horizons beyond our private, day-to-day concerns. It is involvement that weaves us even closer to the fabric of life.


***In a number of Kroger communities (here a food pantry in suburban Cincinnati), we make fresh products available to augment the food requirements of people in need. It is a gesture of growing significance in a time of severe hardship for many Americans.***


Kroger
cracked wheat

In defining character, whether of an individual or a corporate entity, time and circumstance also must be examined and their impact delineated.

Kroger's character in its one hundredth year is a blending of ideas and action, operating philosophies and the people who implement them, tradition and innovation, a sense of where we have come from and where we are going.

It is appropriate to attempt to define our character at this time in our history. It is important to the people who make up the company, because they give us form and substance. It is important to our shareowners and to the financial community, because our sense of purpose is a key to our performance and our profitability. And it is important to those whose relationship is formed only when a transaction is made, because what we are tells much about our trustworthiness and our sense of responsibility.

As a corporation, Kroger is successful. Our vigor is the outgrowth of plans well made and executed, of management strategies detailed and encompassing, of employees dedicated and talented, and of a character that has formed through the years and now lends to Kroger a special cast.

We have paused here to look inward, to examine what we have become and what direction we may take.

By doing so, we are able, if only for a moment, to see the wonder of it all.

# FINANCIAL REPORT

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIO

The analysis of Company operations encompassing the years 1980, 1981 and 1982 should be considered in conjunction with the Consolidated Financial Statements and the Ten Year Summary.

**Liquidity And Capital Resources**

Cash provided from current operations over the past three years accounted for $810.6 million of the $1.026 billion required during that period for capital expenditures and dividends. Long-term financing arrangements were the primary source for the balance of cash requirements, and 1982 arrangements included the issuance of $142.4 million in industrial revenue bonds. Short-term borrowings increased by $75.8 million and averaged $36.3 million during 1982 compared to $16.4 million in 1981. It is the intention of the Company to refinance the $75.8 million of short-term debt on a long-term basis during 1983. Cash and temporary cash investments decreased by $128.0 million to $153.3 million at January 1, 1983.

Capital expenditures during 1982 totaled $388.6 million, an increase of $128.4 million over 1981 and $149.4 million higher than 1980. In 1983 capital spending is expected to approximate $410 million. Plans include approximately 75 new food stores, 18 convenience stores and more than 60 new SupeRx stores, plus the remodel of 107 food stores and 20 drug stores and continued expansion in manufacturing and distribution facilities.

Summary of Retail Expansion

| | 1982 | 1981 | 1980 |
|---|---|---|---|
| Food Stores: | | | |
| Opened | 101 | 111 | 118 |
| Remodeled | 85 | 57 | 49 |
| Closed or Sold | 160 | 98 | 107 |
| Stores—End of Year | 1,199 | 1,258 | 1,245 |
| Total Area* | 37,142 | 36,985 | 34,529 |
| Drug Stores: | | | |
| Opened or Acquired | 77 | 57 | 42 |
| Remodeled | 25 | 15 | 27 |
| Closed or Sold | 21 | 64 | 32 |
| Stores—End of Year | 563 | 507 | 514 |
| Total Area* | 6,261 | 5,715 | 5,841 |

* In thousands of square feet.

At January 1, 1983, the Company had available a revolving credit aggregating $250.0 million against which it may obtain interim loans until March, 1988. At the Company's request, the interim loans may be converted into a term loan payable over six years. In addition, the Company had commitments for financing of real estate and equipment totaling $59.0 million.

$50.0 million of convertible debt was called in the third quarter 1982, resulting in 100% conversion and a corresponding increase in equity. Although long-term debt and capitalized lease obligations continued to increase as a percent of long-term capitalization (Long-Term Debt + Capitalized Lease Obligations + Shareowners' Equity) due to increasing store ownership versus leasing, the pre-tax earnings coverage of interest and rents has remained stable.

| | Percent Of Long-Term Capitalization | | |
|---|---|---|---|
| | 1982 | 1981 | 1980 |
| Short-term Borrowings to be Refinanced | 4.9% | — | — |
| Senior Debt | 29.7 | 27.3% | 25.4% |
| Subordinated Debt | — | 3.7 | — |
| Capitalized Lease Obligations | 9.4 | 9.8 | 11.1 |
| Total | 44.0% | 40.8% | 36.5% |
| Pre-Tax Coverage of Interest and Rent (times) | 1.92 | 2.02 | 1.98 |

Average (FIFO) inventory turns in 1982 declined to 9.0 compared to 9.5 in both 1981 and 1980 due primarily to higher inventory levels in the increasing number of combination stores.

**Results of Operations**

Consolidated sales in 1982 of $11.9 billion increased 5.6% over 1981 including sales for both years in the Company's 65 Market Basket stores, which were disposed of during the third quarter 1982. The increase would have been 8.1% excluding sales for the southern California stores from both years. Food business sales of $11.2 billion in 1982 increased 5.7% over 1981 and drug store sales of $716 million were 5.0% over the previous year.

Consolidated Sales (in millions)

| | 1982 | | 1981 | | 1980 | |
|---|---|---|---|---|---|---|
| | Amt. | Chg. | Amt. | Chg. | Amt. | Chg. |
| Food Business | $11,186 | +5.7% | $10,584 | +9.3% | $ 9,682 | +14.4% |
| Drug Stores | 716 | +5.0% | 683 | +7.5% | 635 | +12.0% |
| Total | $11,902 | +5.6% | $11,267 | +9.2% | $10,317 | +14.3% |

Factors influencing food business sales in 1982 compared to 1981:

| | Including Market Basket | Excluding Market Basket |
|---|---|---|
| Food Prices | +2.1% | +2.2% |
| Food Tonnage | +2.9% | +5.4% |
| Food Store Square Footage | +3.7% | +7.2% |
| Customer Transactions | − .3% | +2.9% |

1982 drug store sales were affected by an approximate 8% price increase and a 3.6% increase in average store square footage.

Merchandise costs, including warehousing and transportation, as a percent of sales continued a downward trend to 76.0% compared to 76.7% in 1981 and 77.7% in 1980. Approximately 71% of 1982 inventories and 72% of 1981 inventories were valued using the last-in, first-out (LIFO) method. The LIFO charge to inventories for 1982 was $18.5 million compared to $30.5 million in 1981, the reduction reflecting the lower level of food inflation.

LIFO Effect on Merchandise Costs as a Percent of Sales
(in millions)

| | 1982 | | 1981 | | 1980 | |
|---|---|---|---|---|---|---|
| | Amt. | % Sales | Amt. | % Sales | Amt. | % Sales |
| Mdse. Costs (FIFO) | $9,029 | 75.9 | $8,615 | 76.4 | $7,962 | 77.2 |
| LIFO Charge | 19 | .1 | 30 | .3 | 50 | .5 |
| Mdse. Costs (LIFO) | $9,048 | 76.0 | $8,645 | 76.7 | $8,012 | 77.7 |

1982 food business merchandise costs, including warehousing and transportation, were 76.4% of sales compared to 77.1% in 1981 and 78.2% in 1980. A change in product mix resulting from a greater number of stores with specialty and non-foods/general merchandise departments was a significant cause of the decline. Drug store merchandise costs, including warehousing and transportation, were 69.9% of sales in 1982 compared to 70.9% in 1981 and 69.4% in 1980.

Operating, general and administrative expenses continued to increase and were 8.0% higher than 1981. On a percent of sales basis, the 1982 costs were 19.5%, compared to 19.1% in 1981 and 18.4% in 1980. Major contributing factors for the increase over 1981 were higher employee related costs, which were up 7.9% over 1981 and utility costs which reflected a 14.3% rise over the prior year.

Food business operating profit (before taxes based on income and unallocated expenses) was $263.0 million in 1982 compared to $244.6 million in 1981 and $198.4 million in 1980. 1982 included a $14.2 million gain resulting from the store closing program.

Operating profit (before taxes based on income and unallocated expenses) for drug stores increased to $15.2 million from $6.5 million in 1981 and $9.8 million in 1980. A gain of $4.3 million resulting from the sale of real estate is included in 1981 results. The continued revitalization of drug store facilities and refinement of operations and merchandising strategies have produced improved results.

**Net Earnings**

Earnings from continuing operations in 1982 were $143.8 million compared to $129.5 million in 1981 and $102.8 million in 1980. A lower effective tax rate primarily resulting from investment tax credits and capital gains favorably impacted 1982 earnings. The Company's store closing program increased 1982 earnings by $14.2 million. This was the result of the gain realized from the disposal of certain stores and other properties offset in part by operating losses and closing costs associated with these properties.

The Company's reported sales, earnings, shareowners' equity and other pertinent financial data have been affected by the high rates of inflation in recent years. An estimation and evaluation of the effect of inflation, as defined by Statement of Financial Accounting Standards No. 33, Financial Reporting and Changing Prices, follows on pages 41-43.

**Management's Responsibility for Financial Reporting**

The consolidated financial statements of The Kroger Co. and Consolidated Subsidiary Companies and other financial information contained in this report were prepared by management, which is responsible for their integrity and completeness. These statements were prepared in conformity with generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgments.

The Company has, over the years, maintained a system of internal accounting controls to provide reasonable assurance that Company assets are adequately protected, and that transactions are executed in accordance with management's authorizations and are reflected accurately in the Company's books and records as a basis for the reliable preparation of the financial statements. The system of controls includes careful selection and training of financial management personnel, clearly defined limits of authority and division of responsibility, the dissemination of detailed formal accounting and business policies and procedures, and an extensive program of internal audit examinations to monitor the effectiveness of the system. The Company has distributed to key employees its policy requiring high moral, ethical and legal standards in the conduct of its business.

Coopers & Lybrand, certified public accountants, has examined the consolidated financial statements in accordance with generally accepted auditing standards. Its report on the consolidated financial statements appears on page 41.

The Board of Directors, acting through its Audit Committee comprised entirely of outside directors, oversees the fulfillment by management of its responsibilities in the preparation of financial statements and for financial control. The Committee recommends the selection of the Company's certified public accountants, reviews the scope and cost of the internal and external audit programs and meets formally at least three times per year with the internal and external auditors, providing them direct free access at these and other times.

# CONSOLIDATED BALANCE SHEET (In thousands of dollars)

| ASSETS | January 1, 1983 | January 2, 1982 |
|---|---|---|
| Current Assets | | |
| Cash and temporary cash investments | $ 153,307 | $ 281,257 |
| Receivables | 112,858 | 96,935 |
| Inventories: | | |
| FIFO cost | 1,085,916 | 928,489 |
| Less LIFO reserve | (136,072) | (117,543) |
| | 949,844 | 810,946 |
| Property held for resale | 65,758 | 25,275 |
| Prepaid and other current assets | 83,635 | 63,928 |
| Total current assets | 1,365,402 | 1,278,341 |
| Notes receivable | 25,834 | 15,059 |
| Investments | | |
| Marketable investment securities | 8,903 | 15,772 |
| Other investments | 35,742 | 25,177 |
| Total investments | 44,645 | 40,949 |
| Property, Plant and Equipment | | |
| Land | 46,163 | 40,468 |
| Buildings and land improvements | 255,281 | 207,563 |
| Equipment | 1,089,657 | 901,842 |
| Leaseholds and leasehold improvements | 316,882 | 275,233 |
| Leased property under capital leases | 189,631 | 173,480 |
| | 1,897,614 | 1,598,586 |
| Allowance for depreciation and amortization | (609,796) | (545,822) |
| Property, plant and equipment, net | 1,287,818 | 1,052,764 |
| Excess of cost of investments in consolidated subsidiaries over equities in net assets | 5,860 | 18,177 |
| **Total Assets** | $2,729,559 | $2,405,290 |

The accompanying notes are an integral part of the consolidated financial statements.

| LIABILITIES | January 1, 1983 | January 2, 1982 |
|---|---|---|
| Current Liabilities | | |
| Current portion of long-term debt | $ 41,577 | $ 3,281 |
| Current portion of obligations under capital leases | 4,355 | 4,193 |
| Accounts payable | 608,385 | 589,100 |
| Accrued expenses: | | |
| Salaries and wages | 128,988 | 122,704 |
| Taxes, other than income taxes | 78,586 | 69,310 |
| Other | 120,823 | 79,542 |
| Accrued income taxes | 20,078 | 13,966 |
| Total current liabilities | 1,002,792 | 882,096 |
| Other Liabilities | | |
| Long-term debt: | | |
| Short-term borrowings to be refinanced | 75,755 | |
| Senior debt | 462,662 | 372,816 |
| Convertible subordinated debt | | 50,000 |
| Obligations under capital leases | 146,788 | 134,523 |
| Deferred federal income taxes | 148,699 | 135,253 |
| Employees' benefit fund | 21,810 | 23,131 |
| Total other liabilities | 855,714 | 715,723 |
| **Total Liabilities** | 1,858,506 | 1,597,819 |
| **SHAREOWNERS' EQUITY** | | |
| Convertible preferred capital stock, Cumulative, voting, par $100 Authorized: 5,000,000 shares Issued: 1982—500,000, 9% Series B shares 1981—500,000, 9% Series B shares | 50,000 | 50,000 |
| Common capital stock, par $1, at stated value Authorized: 50,000,000 shares Issued: 1982—30,634,966 shares 1981—28,280,429 shares | 164,778 | 100,083 |
| Accumulated earnings | 763,199 | 673,740 |
| | 977,977 | 823,823 |
| Common stock in treasury, at cost 1982—2,635,824 shares 1981— 287,873 shares | (98,749) | (4,509) |
| Net unrealized loss on marketable equity securities | (8,175) | (11,843) |
| **Total Shareowners' Equity** | 871,053 | 807,471 |
| **Total Liabilities and Shareowners' Equity** | $2,729,559 | $2,405,290 |

# CONSOLIDATED STATEMENT OF EARNINGS (In thousands of dollars, except per share amounts)

Years Ended January 1, 1983, January 2, 1982 and January 3, 1981

| | 1982 (52 Weeks) | 1981 (52 Weeks) | 1980 (53 Weeks) |
|---|---|---|---|
| **Sales** | **$11,901,892** | $11,266,520 | $10,316,741 |
| Costs and Expenses: | | | |
| Merchandise costs, including warehousing and transportation | **9,048,038** | 8,645,000 | 8,011,872 |
| Operating, general and administrative expenses | **2,323,996** | 2,152,155 | 1,901,178 |
| Rent | **168,050** | 144,002 | 130,632 |
| Depreciation and amortization | **120,874** | 103,816 | 86,166 |
| Dividend and interest income | **(25,744)** | (18,520) | (11,403) |
| Interest expense, including interest on obligations under capital leases | **58,720** | 45,778 | 35,736 |
| Total | **11,693,934** | 11,072,231 | 10,154,181 |
| Earnings from continuing operations before taxes based on income | **207,958** | 194,289 | 162,560 |
| Taxes based on income | **64,200** | 64,805 | 59,774 |
| Earnings from continuing operations | **143,758** | 129,484 | 102,786 |
| Loss from discontinued operations | | (1,439) | (8,400) |
| **Net earnings** | **$ 143,758** | $ 128,045 | $ 94,386 |
| Earnings (loss) per share: | | | |
| Primary: | | | |
| From continuing operations | **$4.84** | $4.56 | $3.71 |
| From discontinued operations | | (.05) | (.30) |
| **Net earnings** | **$4.84** | $4.51 | $3.41 |
| Fully diluted: | | | |
| From continuing operations | **$4.64** | $4.43 | $3.71 |
| From discontinued operations | | (.05) | (.30) |
| **Net earnings** | **$4.64** | $4.38 | $3.41 |

The accompanying notes are an integral part of the consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION (In thousands of dollars)

Years Ended January 1, 1983, January 2, 1982 and January 3, 1981

| | 1982 (52 Weeks) | 1981 (52 Weeks) | 1980 (53 Weeks) |
|---|---|---|---|
| **Cash Provided (Used) Through Current Operations:** | | | |
| Net earnings | **$143,758** | $128,045 | $ 94,386 |
| Loss from discontinued operations | | 1,439 | 8,400 |
| Earnings from continuing operations | **143,758** | 129,484 | 102,786 |
| Charges not involving cash: | | | |
| Depreciation and amortization | **120,874** | 103,816 | 86,166 |
| Provision for deferred federal income taxes | **13,446** | 20,578 | 13,091 |
| Tax benefit from discontinued operations | | | 18,000 |
| Loss on marketable investment securities | **405** | | 94 |
| Write-off of excess of cost of investment over equity in net assets | **12,294** | | |
| Earnings and non-cash expenses | **290,777** | 253,878 | 220,137 |
| Increase in current cost of inventory | **(157,427)** | (66,148) | (44,986) |
| LIFO charge | **18,529** | 30,470 | 50,416 |
| Decrease (increase) in other current assets | **(35,630)** | 13,402 | (58,788) |
| Decrease in notes payable | | (14,700) | (2,325) |
| Increase in other current liabilities | **120,696** | 96,295 | 95,954 |
| **Cash provided from current operations** | **236,945** | 313,197 | 260,408 |
| **Cash Provided (Used) Through Financing Activities:** | | | |
| Cash dividends paid | **(54,299)** | (44,734) | (38,768) |
| Preferred stock issued | | 50,000 | |
| Common stock issued | **62,793** | 1,937 | 1,227 |
| Short-term borrowings to be refinanced | **75,755** | | |
| Additions to long-term debt and obligations under capital leases | **159,025** | 194,303 | 77,946 |
| Reductions of long-term debt and obligations under capital leases | **(106,914)** | (22,929) | (31,973) |
| Net book value of fixed asset disposals | **46,943** | 11,126 | 9,981 |
| Increase in properties held for resale | **(40,483)** | (25,275) | |
| Capital expenditures | **(388,575)** | (260,218) | (239,130) |
| Treasury shares exchanged for assets | **(95,882)** | | |
| Increase in leased property under capital leases | **(16,600)** | (21,893) | (15,596) |
| Other changes, net | **(6,658)** | (7,129) | (6,457) |
| **Cash used through financing activities** | **(364,895)** | (124,812) | (242,770) |
| **Increase (Decrease) In Cash And Temporary Cash Investments** | **(127,950)** | 188,385 | 17,638 |
| Cash and temporary cash investments: | | | |
| Beginning of year | **281,257** | 92,872 | 75,234 |
| End of year | **$153,307** | $281,257 | $ 92,872 |

The accompanying notes are an integral part of the consolidated financial statements.

## CONSOLIDATED STATEMENT OF SHAREOWNERS' EQUITY (In thousands of dollars)

Years Ended January 1, 1983, January 2, 1982 and January 3, 1981

| | Preferred Stock Issued | |
|---|---|---|
| | Shares | Amount |
| **Balance, December 29, 1979** | | |
| Net earnings for the year | | |
| Dividends on common stock, $1.40 per share | | |
| Exercise of stock options | | |
| Decrease in net unrealized loss on marketable equity securities | | |
| Stock contributed to employee stock ownership plan | | |
| Tax benefit from exercise of non-qualified stock options | | |
| Dividends reinvested under stock purchase plan | | |
| **Balance, January 3, 1981** | | |
| Net earnings for the year | | |
| Issuance of preferred capital stock | 500,000 | $50,000 |
| Dividends on preferred stock | | |
| Dividends on common stock, $1.57 per share | | |
| Exercise of stock options | | |
| Increase in net unrealized loss on marketable equity securities | | |
| Stock contributed to employee stock ownership plan and others | | |
| Tax benefit from exercise of non-qualified stock options | | |
| Dividends reinvested under stock purchase plan | | |
| **Balance, January 2, 1982** | 500,000 | 50,000 |
| Net earnings for the year | | |
| Dividends on preferred stock | | |
| Dividends on common stock, $1.76 per share | | |
| Exercise of stock options | | |
| Stock issued in exchange for debt | | |
| Stock issued for conversion of debentures | | |
| Treasury shares exchanged for assets | | |
| Decrease in net unrealized loss on marketable equity securities | | |
| Stock contributed to employee stock ownership plan and others | | |
| Tax benefit from exercise of non-qualified stock options | | |
| Dividends reinvested under stock purchase plan | | |
| **Balance, January 1, 1983** | 500,000 | $50,000 |

The accompanying notes are an integral part of the consolidated financial statements.

| Common Stock | | | | | | Total |
|---|---|---|---|---|---|---|
| Issued | | In Treasury | | Accumulated | Valuation | Shareowners' |
| Shares | Amount | Shares | Amount | Earnings | Allowance | Equity |
| 28,038,187 | $ 94,749 | (426,660) | $ (6,534) | $534,811 | $(11,698) | $611,328 |
| | | | | 94,386 | | 94,386 |
| | | | | (38,768) | | (38,768) |
| 89,680 | 903 | | | | | 903 |
| | | | | | 1,559 | 1,559 |
| | 417 | 56,259 | 862 | | | 1,279 |
| | 355 | | | | | 355 |
| 15,005 | 324 | | | | | 324 |
| 28,142,872 | 96,748 | (370,401) | (5,672) | 590,429 | (10,139) | 671,366 |
| | | | | 128,045 | | 128,045 |
| | | | | | | 50,000 |
| | | | | (963) | | (963) |
| | | | | (43,771) | | (43,771) |
| 103,154 | 1,116 | (15,474) | (371) | | | 745 |
| | | | | | (1,704) | (1,704) |
| | 629 | 98,002 | 1,534 | | | 2,163 |
| | 769 | | | | | 769 |
| 34,403 | 821 | | | | | 821 |
| 28,280,429 | 100,083 | (287,873) | (4,509) | 673,740 | (11,843) | 807,471 |
| | | | | 143,758 | | 143,758 |
| | | | | (4,500) | | (4,500) |
| | | | | (49,799) | | (49,799) |
| 415,246 | 5,592 | (31,202) | (995) | | | 4,597 |
| 205,966 | 5,939 | | | | | 5,939 |
| 1,710,000 | 50,498 | | | | | 50,498 |
| | | (2,398,702) | (95,882) | | | (95,882) |
| | | | | | 3,668 | 3,668 |
| 58 | 404 | 81,953 | 2,637 | | | 3,041 |
| | 1,498 | | | | | 1,498 |
| 23,267 | 764 | | | | | 764 |
| 30,634,966 | $164,778 | (2,635,824) | $(98,749) | $763,199 | $ (8,175) | $871,053 |

# SEGMENTS OF BUSINESS

| | 1982 (52 Weeks) | 1981 (52 Weeks) | 1980 (53 Weeks) |
|---|---|---|---|
| | | (In millions of dollars) | |
| Sales: | | | |
| Food Business | **$ 11,186** | $ 10,584 | $ 9,682 |
| Drug Stores | **716** | 683 | 635 |
| Total | **$ 11,902** | $ 11,267 | $ 10,317 |
| Operating Profit: | | | |
| Food Business | **$ 263.0(a)** | $ 244.6 | $ 198.4 |
| Drug Stores | **15.2** | 6.5(b) | 9.8 |
| Total | **278.2** | 251.1 | 208.2 |
| Unallocated Expenses: | | | |
| Corporate expenses, net | **11.5** | 11.0 | 9.9 |
| Interest expense | **58.7** | 45.8 | 35.7 |
| Total | **70.2** | 56.8 | 45.6 |
| Earnings from continuing operations before taxes based on income | **208.0** | 194.3 | 162.6 |
| Taxes based on income | **64.2** | 64.8 | 59.8 |
| Earnings from continuing operations | **$ 143.8** | $ 129.5 | $ 102.8 |
| Identifiable Assets: | | | |
| Food Business | **$2,124.5** | $1,921.4 | $1,634.8 |
| Drug Stores | **239.6** | 203.0 | 208.6 |
| Other unallocated | **365.5** | 280.9 | 155.1 |
| | **$2,729.6** | $2,405.3 | $1,998.5 |
| Capital Expenditures: | | | |
| Food Business | **$ 347.6** | $ 234.0 | $ 224.5 |
| Drug Stores | **$ 20.9** | $ 15.8 | $ 13.2 |
| Depreciation and Amortization: | | | |
| Food Business | **$ 112.2** | $ 96.6 | $ 80.0 |
| Drug Stores | **$ 5.8** | $ 5.2 | $ 4.3 |

(a) Food Business Operating Profit includes a gain of $14.2 million resulting from the store closing program.

(b) Drug Stores Operating Profit includes a gain of $4.3 million resulting from the sale of 21 stores.

## QUARTERLY DATA (Unaudited)

Quarterly sales, merchandise costs (including warehousing and transportation), net earnings and fully diluted net earnings per share for 1982 and 1981 were:

| | Sales In Millions | | Merchandise Costs In Millions | | Net Earnings In Millions | | Net Earnings Per Share | |
|---|---|---|---|---|---|---|---|---|
| Quarter | 1982 | 1981 | 1982 | 1981 | 1982 | 1981 | 1982 | 1981 |
| 1st (12 Weeks) | $ 2,689 | $ 2,483 | $2,057 | $1,917 | $ 20.3 | $ 16.3 | $ .66 | $ .59 |
| 2nd (12 Weeks) | 2,810 | 2,589 | 2,138 | 1,991 | 35.9 | 28.6 | 1.15 | .98 |
| 3rd (16 Weeks) | 3,611 | 3,453 | 2,743 | 2,658 | 37.8 | 30.5 | 1.24 | 1.05 |
| 4th (12 Weeks) | 2,792 | 2,742 | 2,110 | 2,079 | 49.8 | 52.6 | 1.64 | 1.70 |
| Total | $11,902 | $11,267 | $9,048 | $8,645 | $143.8 | $128.0 | $4.64 | $4.38 |

—Earnings per share for the year is not equal to the sum of each quarter's earnings per share. See earnings per share note.

—1982 net earnings were increased $6,500,000 in the third quarter (21¢ per share) and $7,100,000 in the fourth quarter (23¢ per share) due to the disposal of certain stores and other properties.

—1981 net earnings were reduced $786,000 in the third quarter (3¢ per share) and $653,000 in the fourth quarter (2¢ per share) for losses resulting from the disposal of the Company's investments in the amusement park business.

The LIFO method of valuing inventories reduced net earnings as follows:

(In thousands of dollars except per share figures)

| | 1982 | | 1981 | |
|---|---|---|---|---|
| | Net Earnings | Net Earnings Per Share | Net Earnings | Net Earnings Per Share |
| 1st Quarter | $ 4,114 | $ .13 | $ 6,072 | $ .22 |
| 2nd Quarter | 4,442 | .14 | 5,764 | .20 |
| 3rd Quarter | 2,953 | .10 | 7,532 | .25 |
| 4th Quarter | (1,504) | (.05) | (2,914) | (.09) |
| | $10,005 | $ .32 | $16,454 | $ .56 |

| | Common Stock Price Range | | | |
|---|---|---|---|---|
| | 1982 | | 1981 | |
| | High | Low | High | Low |
| 1st Quarter | 29½ | 23⅜ | 27¼ | 19¼ |
| 2nd Quarter | 32⅝ | 28½ | 27⅞ | 23 |
| 3rd Quarter | 47¼ | 31⅛ | 25⅛ | 19¼ |
| 4th Quarter | 47⅛ | 36⅛ | 27⅛ | 21¼ |

| Dividends Paid Per Share of Common Stock | | |
|---|---|---|
| Date Paid | 1982 | 1981 |
| March 1 | $ .43 | $ .38 |
| June 1 | .43 | .38 |
| September 1 | .43 | .38 |
| December 1 | .47 | .43 |
| | $1.76 | $1.57 |

Main trading market—New York Stock Exchange
(Symbol KR)

Number of shareowners at year end
1982—36,198
1981—37,549

All dollar amounts are in thousands except per share amounts.

## Accounting Policies

The following is a summary of the significant accounting policies followed in preparing the financial statements which are not presented elsewhere in the notes. These policies conform to generally accepted accounting principles and have been consistently applied.

### Principles of Consolidation

The consolidated financial statements include the Company and all of its subsidiaries except a wholly-owned life insurance subsidiary formed in 1982, which is included on the equity basis. Partially-owned affiliated companies are included in the financial statements on the equity basis. Certain amounts in the financial statements for prior years have been reclassified to conform to the 1982 presentation.

### Marketable Investment Securities

Marketable investment securities consist of bonds, notes, and common and preferred stocks held for investment. Dividend and interest income are accrued as earned. The cost of marketable investment securities sold is determined on the specific identification method.

Marketable equity securities (common and preferred stocks) are carried at the lower of cost or market. A valuation allowance, representing the excess of cost over market of these equity securities, is included in shareowners' equity. Other marketable investment securities (bonds and notes) are carried at cost unless there is a permanent impairment of value, at which time the securities are valued at market. In management's opinion there is no indication of a permanent loss in value of the portfolio and there is no present intention to liquidate the securities at less than cost.

### Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization, which include the amortization of assets recorded under capital leases, are computed principally on the straight-line basis. Buildings and land improvements are depreciated based on lives varying from twenty to forty years and equipment based on lives varying from three to fifteen years. Leasehold improvements are being amortized over their useful lives, which generally approximate twelve and one-half years.

### Excess of Cost of Investments in Consolidated Subsidiaries Over Equities in Net Assets

The excess of cost of investments in consolidated subsidiaries over equities in net assets at dates of acquisition originating prior to November, 1970, is not being amortized because, in the opinion of management, there has been no decrease in value. Amounts arising after October, 1970, are not significant and are being amortized on the straight-line basis over forty years.

### Capitalization of Interest

Interest attributed to funds used to finance major capital expenditures is capitalized as an additional cost of the related assets. Capitalization of interest ceases when the related assets are substantially complete and ready for their intended use.

### Deferred Federal Income Taxes and Investment Tax Credits

Deferred federal income taxes consist primarily of the amount of tax applicable to the excess of depreciation for tax purposes over depreciation used for financial reporting purposes less the amount of tax applicable to the unfunded pension liability.

Investment tax credits are included as reductions of income tax expense in the years in which the credits arise.

The cost of tax benefits purchased as a result of the Company's participation in safe harbor leases is included in Other Investments and is subsequently reduced for the amount of these tax benefits utilized by the Company. Tax benefits purchased had no material effect on income tax expense or net earnings.

### Property Held for Resale

Property held for resale represents the cost of certain land and buildings committed by the Company for sale and leaseback during the next year and on which title has not transferred to a purchaser.

## Discontinued Operations

In 1980, the Company decided to dispose of its investments in the amusement park business. The Company and Taft Broadcasting Company (Taft) had been 50% joint-owners of Family Leisure Centers, Inc. (FLC), which operated the Carowinds and Kings Dominion amusement parks, and the Hanna-Barbera's Marineland amusement park. A reorganization of FLC during 1980 resulted in the Company increasing its ownership to 81% from 50% and Taft becoming the sole owner of Carowinds. Under a subsequent agreement, the Company sold the Kings Dominion assets to Taft for one million shares of Taft Series B preferred stock (Series B Stock) with a par value of $20 per share with an estimated value of $17,800. The Series B Stock, which is included in Other Investments at January 1, 1983, receives an annual dividend of $1.38 per share. Beginning in 1982, Taft is redeeming the Series B Stock in varying amounts, with all shares to be redeemed by 1993. The sale of the Kings Dominion assets provided approximately $18,000 in tax benefits. The loss on discontinued operations, after deducting anticipated tax benefits, was provided at January 3, 1981, to reflect the estimated net realizable value of the Company's investments in amusement parks.

During 1981, the Company sold its interest in the Hanna-Barbera's Marineland amusement park. The amount of loss on discontinued operations in 1981 represents the excess of the actual loss on discontinued operations over the amount estimated at January 3, 1981.

## Inventories

Inventories are stated at the lower of cost (principally LIFO) or market. Approximately 71% of inventories for 1982 and 72% of inventories for 1981 were valued using the LIFO method. Cost for the balance of the inventories was determined by the FIFO method of inventory valuation.

The Company uses the LIFO method of valuing certain of its grocery inventories to minimize inflation-induced inventory profits and to achieve a better matching of current costs with current revenues. Supplemental FIFO information (net earnings plus the after-tax effect of the LIFO charge) is presented to permit a more complete comparison to various other companies. Earnings and earnings per share on a FIFO basis for the three fiscal years ended January 1, 1983 were:

| | From Continuing Operations | | | |
|---|---|---|---|---|
| | Earnings | Per Share (fully diluted) | Net Earnings | Net Earnings Per Share (fully diluted) |
| 1982 | $153,763 | $4.96 | $153,763 | $4.96 |
| 1981 | $145,938 | $4.99 | $144,498 | $4.93 |
| 1980 | $130,011 | $4.70 | $121,611 | $4.39 |

## Marketable Investment Securities

Marketable investment securities consist of:

| | 1982 | 1981 |
|---|---|---|
| Equity securities, at cost | $15,015 | $26,762 |
| Less valuation allowance charged against shareowners' equity | ( 6,541) | (11,843) |
| Equity securities, at market | 8,474 | 14,919 |
| Bonds and notes, at cost | 429 | 853 |
| | $ 8,903 | $15,772 |

The valuation allowance included in shareowners' equity includes the excess of cost over market, amounting to $1,634, of the marketable equity securities owned by a subsidiary accounted for on the equity basis.

## Debt Obligations

Long-term debt as of January 1, 1983 and January 2, 1982 consists of:

| | 1982 | 1981 |
|---|---|---|
| Short-term borrowings to be refinanced: | $ 75,755 | |
| Senior debt: | | |
| 14⅜% notes maturing in 1991 | 50,000 | $ 50,000 |
| 12⅜% sinking fund debentures maturing in 2005, with annual payments of $2,500 required from 1988 through 2004 | 50,000 | 50,000 |
| 9⅞% notes maturing in 1983 | 32,224 | 33,284 |
| 9% sinking fund debentures maturing in 1995, with annual payments of $2,500 required from 1985 through 1995 | 26,325 | 27,248 |
| 8.7% sinking fund debentures maturing in 1998, with annual payments of $3,000 required from 1985 through 1998 | 41,145 | 45,189 |
| 8½% sinking fund debentures maturing in 2001, with annual payments of $2,500 required from 1986 through 2001 | 38,717 | 42,217 |
| 6⅜% to 14¼% industrial revenue bonds, with annual payments due in varying amounts through 2022 | 239,185 | 100,685 |
| 4½% to 9½% secured notes, with annual payments due in varying amounts through 2004 | 26,643 | 27,474 |
| | 504,239 | 376,097 |
| Less amount due within one year | (41,577) | (3,281) |
| Total senior debt | 462,662 | 372,816 |
| Subordinated debt: | | |
| 10¼% convertible subordinated sinking fund debentures | | 50,000 |
| Total long-term debt | $538,417 | $422,816 |

The aggregate annual maturities and required payments of long-term debt for the five years subsequent to 1982 are:

| | |
|---|---|
| 1983 | $41,577 |
| 1984 | $ 4,165 |
| 1985 | $ 8,882 |
| 1986 | $18,312 |
| 1987 | $29,292 |

Under certain of the loan agreements, payments of cash dividends are limited. Under the most limiting agreement, accumulated earnings were unrestricted in the amount of $234,000 at January 1, 1983.

The 10¼% convertible subordinated sinking fund debentures were called for redemption during 1982. These debentures were converted into 1,710,000 shares of common stock at a conversion price of $29.24 per share.

The Company periodically engages in short-term borrowing. Short-term borrowing for the three years ended January 1, 1983 was:

| | 1982 | 1981 | 1980 |
|---|---|---|---|
| Weighted average for the year | $ 36,331 | $16,412 | $ 8,907 |
| Highest level outstanding during the year | $188,351 | $73,265 | $31,779 |
| Weighted average interest rate | 9.50% | 16.0% | 13.9% |

The Company intends to refinance on a long-term basis during 1983, the $75,755 of short-term borrowings outstanding at January 1, 1983.

At January 1, 1983, the Company had available a revolving credit aggregating $250,000 against which it may obtain interim loans until March, 1988. The interest rate on the interim loans would vary between The First National Bank of Chicago corporate base rate, and 100¾% of this rate. The interim loans may be converted into term loans payable over six years. No amounts have been borrowed under this agreement.

Interest costs capitalized in 1982, 1981 and 1980 amounted to $7,655, $4,351 and $1,327, respectively.

## Leases

The Company operates principally in leased premises. Lease terms generally range from ten to twenty-five years with options of renewal for additional periods.

Options provide in some cases for reduced rentals and/or the right to purchase. Certain of the leases provide for contingent payments based upon a percent of sales.

Rent expense (under operating leases) consists of:

| | 1982 | 1981 | 1980 |
|---|---|---|---|
| Minimum rentals, net of minor sublease rentals | $154,128 | $130,838 | $118,404 |
| Contingent payments | 13,922 | 13,164 | 12,228 |
| Total | $168,050 | $144,002 | $130,632 |

Assets recorded under capital leases consist of:

| | 1982 | 1981 |
|---|---|---|
| Distribution and manufacturing facilities | $102,966 | $ 97,216 |
| Store facilities | 86,665 | 76,264 |
| Less accumulated amortization | (51,985) | (46,412) |
| | $137,646 | $127,068 |

Minimum annual rentals, net of sublease rentals under operating leases of $237,661, for the five years subsequent to 1982 and in the aggregate are:

| | Capital Leases | Operating Leases |
|---|---|---|
| 1983 | $ 20,500 | $ 162,060 |
| 1984 | 20,098 | 156,124 |
| 1985 | 19,560 | 150,094 |
| 1986 | 18,806 | 145,815 |
| 1987 | 18,691 | 143,264 |
| 1988 and thereafter | 281,089 | 1,564,386 |
| | 378,744 | $2,321,743 |
| Less estimated executory costs included in capital leases | (23,603) | |
| Net minimum lease payments under capital leases | 355,141 | |
| Less amount representing interest | (203,998) | |
| Present value of net minimum lease payments under capital leases | $151,143 | |

## Convertible Preferred Stock

In 1981, the Company entered into a financing arrangement with an investor company to own jointly a subsidiary, Kroco, Inc. (Kroco), which was formed in 1981. The Company contributed $50,000 of plant, inventories and cash to Kroco in exchange for 100% of Kroco's common stock with a 20% voting interest, $20,000 of Kroco non-voting 7% preferred stock and a $20,000 Kroco 9% convertible debenture. The investor company invested $50,000 in cash in exchange for the 9% cumulative voting preferred stock of Kroco with an 80% voting interest. In January, 1982, Kroco invested $50,000 in 500,000 shares of the Company's cumulative convertible preferred stock with a 9% dividend rate, the holders of which are entitled to one vote per share. The voting preferred stock of Kroco may be exchanged for the Company's 9% cumulative convertible preferred stock held by Kroco which is convertible into the Company's common stock at a price of $38.26 per share declining to $33.15 per share in January, 1985. The convertible debenture held by the Company can be converted after October 31, 1986, or prior thereto upon the occurrence of certain events, into Kroco common shares which would result in the Company having two-thirds voting control of Kroco.

The Company and Kroco formed a partnership BHK, Ltd. (BHK) as part of the financing arrangement. Kroco contributed the plant, inventories and cash received from the Company for a 90% limited partnership interest. The Company contributed $11,000 of plant and inventories for a 10% general partnership interest.

As the general partner, the Company accounts for its interest in BHK using the consolidation method of accounting. The investment in Kroco is accounted for using the equity basis. The Company's equity in the earnings of Kroco, $51,817 in 1982 and $8,932 in 1981, is reported on a pre-tax basis and is offset by $53,210 in 1982 and $7,758 in 1981, which represents the minority interest in the earnings of BHK. The Kroco earnings

include $1,393 of net interest expense in 1982 and $1,174 of net interest income in 1981. Also, the minority interest in the net assets of BHK, $99,666 at January 1, 1983, has been netted against the Company's investment in Kroco, $99,447 at January 1, 1983, in the Company's consolidated balance sheet so that the consolidated balance sheet reflects the Company's interest in the various assets owned by BHK. As the investor company owns 80% of the voting control of Kroco and includes the taxable income of Kroco in its consolidated tax return, the tax expense of Kroco included in the Company's financial statements represents amounts payable to the investor company under a tax allocation agreement. The net effect of this financing arrangement was to generate cash and increase equity by $50,000.

A Director of the Company is President and a Director of the investor company and another Director of the Company is also a Director of the investor company.

## Stock Option Plans

At January 1, 1983, options were outstanding to purchase 1,129,029 shares of common stock under the 1969, 1976, and 1981 Stock Option Plans (of which options on 627,569 shares were exercisable at that date) at prices ranging from $7.78 to $42.44 a share. Each option outstanding was granted at an option price equal to the fair market value of the stock at the date of grant. No further options may be granted under the 1969 Plan. Options may be granted under the 1976 and 1981 Plans until 1986 and 1991, respectively. At January 1, 1983, shares of common stock available for future options under the 1976 and 1981 Plans amounted to 5,713 and 487,200 shares, respectively.

Changes in options outstanding under the Stock Option Plans of the Company were:

| | Shares Subject To Option | Option Price Range Per Share |
|---|---|---|
| **Outstanding, December 29, 1979** | 964,323 | $ 7.78—$25.06 |
| Granted | 249,000 | $16.63—$22.00 |
| Exercised | (89,680) | $ 7.78—$17.94 |
| Cancelled or expired | (7,505) | $12.85—$19.75 |
| **Outstanding, January 3, 1981** | 1,116,138 | $ 7.78—$25.06 |
| Granted | 342,600 | $20.31—$25.44 |
| Exercised | (103,154) | $ 7.78—$19.75 |
| Cancelled or expired | (25,889) | $ 7.91—$21.25 |
| **Outstanding, January 2, 1982** | 1,329,695 | $ 7.78—$25.44 |
| Granted | 227,000 | $25.19—$42.44 |
| Exercised | (415,246) | $ 7.78—$26.81 |
| Cancelled or expired | (12,420) | $ 7.78—$25.44 |
| **Outstanding, January 1, 1983** | 1,129,029 | $ 7.78—$42.44 |

The stock option plans provide for the exercise of options by exchanging issued shares of stock of the Company in lieu of cash payments.

The Company has a Stock Appreciation Rights Plan available to certain officers. In general, the eligible optionees are permitted to surrender the related option and receive cash and shares of the Company's common stock having a value equal to the appreciation on the shares subject to the option. The appreciation of Stock Appreciation Rights is charged to earnings based upon the market value of common stock. At January 1, 1983, no Stock Appreciation Rights were outstanding.

Under the Company's dividend reinvestment plan, shareowners of record may purchase additional shares of common stock by reinvesting dividends and/or making optional cash investments.

## Taxes Based on Income

The provision for taxes based on income consists of:

| | 1982 | 1981 | 1980 |
|---|---|---|---|
| Federal | | | |
| Current | $11,688 | $25,987 | $31,796 |
| Deferred | 13,446 | 20,578 | 13,091 |
| | 25,134 | 46,565 | 44,887 |
| State and Local | | | |
| Current | 15,200 | 14,243 | 14,887 |
| Payments in lieu of federal income taxes | 23,866 | 3,997 | |
| Total | $64,200 | $64,805 | $59,774 |

Investment and other tax credits reduced the tax provision by $27,007 in 1982, $27,652 in 1981 and $18,217 in 1980.

Payments in lieu of federal income taxes represent the estimated amounts payable to Baldwin-United Corporation under a tax allocation agreement. See Convertible Preferred Stock note.

A reconciliation of the statutory federal rate and the effective rate is as follows:

| | 1982 | 1981 | 1980 |
|---|---|---|---|
| Statutory rate | 46.0% | 46.0% | 46.0% |
| State income taxes, net of federal tax benefit | 3.9 | 4.0 | 4.9 |
| Investment and other tax credits | (13.0) | (14.2) | (11.2) |
| Write-off of excess of cost of investment over equity in net assets | 2.7 | | |
| Capital gains | (6.0) | | |
| Other, net | (2.7) | (2.4) | (2.9) |
| Effective rate | 30.9% | 33.4% | 36.8% |

Deferred federal income taxes included in the Consolidated Statement of Earnings consist of:

| | 1982 | 1981 | 1980 |
|---|---|---|---|
| The tax effect of amounts expensed (included in earnings) for tax purposes in excess of amounts used for financial reporting: | | | |
| Depreciation | $26,419 | $19,831 | $11,785 |
| Excess pension contribution | (4,911) | (410) | 475 |
| Other | (8,062) | 1,157 | 831 |
| | $13,446 | $20,578 | $13,091 |

## Pension Plans

The Company has three non-contributory retirement plans for eligible employees, two of which have historically been funded. The third retirement plan, which was previously unfunded, is being funded over a period of forty years beginning in 1976. The Company also contributes to multi-employer plans jointly administered by management and union representatives. The total pension expense for 1982, 1981 and 1980 was $98,143, $94,658, and $85,587, respectively. Past service costs of the Company's plans are amortized over periods ranging from thirty to forty years.

As a result of changes in actual plan experience, several actuarial assumptions used in calculating pension expense were changed in 1982. The most significant change was to increase the assumed rate of return on investments from 6½% to 7½%. The net effect of these changes was to reduce 1982 pension expense by $5,725.

Accumulated plan benefits and plan net assets for the Company administered plans were:

| | January 1, 1982 | January 1, 1981 |
|---|---|---|
| Actuarial present value of accumulated plan benefits: | | |
| Vested | $203,581 | $198,181 |
| Nonvested | 19,366 | 19,395 |
| | $222,947 | $217,576 |
| Net assets available for benefits | $242,382 | $208,241 |

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was increased effective January 1, 1982 from 6½% to 7½%, resulting in a decrease in the actuarial present value of accumulated plan benefits of $28,423.

Information with respect to the actuarial present value of accumulated plan benefits and net assets available for benefits relating to the multi-employer plans was not available.

## Earnings Per Share

Primary earnings per share for 1982 and 1981 equal net earnings divided by the weighted average number of common and dilutive common equivalent shares outstanding during the year. Common stock equivalents include shares issuable upon exercise of outstanding stock options and conversion of the Company's cumulative convertible preferred stock. Fully diluted earnings per share equals net earnings, after the elimination of interest expense, net of income tax effect, applicable to the Company's convertible debentures, divided by the weighted average number of common shares, dilutive common equivalent shares and shares issuable upon conversion of the Company's convertible debentures. The weighted average number of shares of common stock outstanding for 1980 does not include common equivalent shares because the resulting dilution of earnings per share of common stock was not material.

The average number of shares used to compute earnings per share was:

| | Primary | Fully Diluted |
|---|---|---|
| 1982 | 29,687 | 31,392 |
| 1981 | 28,369 | 29,726 |
| 1980 | 27,681 | 27,681 |

Earnings per share for a quarter is based on the average number of primary and fully diluted shares outstanding or assumed to be outstanding during the quarter. Earnings per share for a year is based on an average of each quarter's average of shares outstanding or assumed to be outstanding for primary earnings per share and on an average for the year of shares outstanding or assumed to be outstanding for fully diluted earnings per share. The sum of each quarter's earnings per share may not equal earnings per share for the year.

## Store Closing Program

During 1982, the Company adopted a plan to close approximately 140 stores by the end of 1983, including all Market Basket stores located in southern California, as part of the Company's continuing review of underproductive assets. Net earnings for 1982 included a gain of $14,200 or $.45 per share resulting from the actual and anticipated proceeds from the disposal of these properties offset by the net book value of assets sold or written-off and the known

and anticipated operating losses and closing costs associated with the properties included in the plan. At January 1, 1983, 101 stores had been disposed of and a $13,000 allowance was established to provide for estimated future costs to be incurred in connection with the disposal of the remaining properties. These costs include operating costs to the date of closing, loss on investment, and post closing costs such as rental payments, property taxes and maintenance.

Proceeds received in connection with the disposal of certain of the Market Basket stores included 1,656,309 shares of the Company's outstanding common stock valued at $66,599. An additional 742,393 shares of common stock were purchased by the Company out of additional proceeds from the store closing program.

## Litigation

There are pending against the Company various claims and lawsuits arising in the normal course of business, including suits charging violations of certain antitrust and civil rights laws. Some of these suits purport or have been determined to be class actions and/or seek substantial damages. Any damages that may be awarded in antitrust cases will be automatically trebled.

Seventeen antitrust suits alleging, among other things, price fixing in the purchase and sale of meat have been consolidated for pretrial and discovery purposes in the United States District Court in Dallas. The Company is named as a defendent in sixteen of these suits. The Court has entered orders dismissing all damage claims in all seventeen suits. In July and August 1982, the orders and judgments of the Court dismissing such damage claims were appealed by the plaintiffs to the Fifth Circuit Court of Appeals.

Although the amount of liability with respect to all claims and lawsuits cannot be ascertained, the Company is of the opinion that any resulting liability will not have a material effect on the Company's financial position.

## Business Combination

On January 25, 1983, Dillon Companies, Inc. (Dillon) became a wholly-owned subsidiary of the Company. Dillon is a multi-regional operator of supermarkets and convenience stores. Under the terms of the Agreement and Plan of Merger, the shareowners of Dillon received an aggregate 16.6 million shares of the Company's common stock. The merger will be accounted for as a pooling of interests in 1983, and the consolidated financial statements for prior years will be restated to reflect the combined companies.

The following tables summarize on an unaudited pro forma basis the combined financial position and results of operations of the combined companies for the periods indicated:

**Pro Forma Combined Condensed Balance Sheet**

| | January 1, 1983 | January 2, 1982 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and short-term investments | $ 178,156 | $ 325,557 |
| Inventories | 1,108,787 | 951,773 |
| Other current assets | 289,720 | 213,036 |
| Total current assets | 1,576,663 | 1,490,366 |
| Notes receivable | 25,834 | 15,059 |
| Investments | 44,645 | 40,949 |
| Property, plant and equipment, net | 1,610,693 | 1,339,626 |
| Other assets | 35,826 | 45,837 |
| Total Assets | $3,293,661 | $2,931,837 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | $1,142,658 | $1,057,965 |
| Other current liabilities | 60,202 | 20,469 |
| Total current liabilities | 1,202,860 | 1,078,434 |
| Long-term debt | 604,007 | 477,501 |
| Obligations under capital leases | 194,195 | 187,516 |
| Other liabilities | 206,255 | 188,337 |
| Total Liabilities | 2,207,317 | 1,931,788 |
| Shareowners' Equity | | |
| Convertible preferred capital stock, 9% Series B | 50,000 | 50,000 |
| Common stock, par $1, at stated value | 350,627 | 264,407 |
| Accumulated earnings | 792,641 | 701,994 |
| Common stock in treasury | (98,749) | (4,509) |
| Net unrealized loss on marketable equity securities | (8,175) | (11,843) |
| Total Shareowners' Equity | 1,086,344 | 1,000,049 |
| Total Liabilities and Shareowners' Equity | $3,293,661 | $2,931,837 |

**Pro Forma Statement of Earnings**
(Combined on a Recast Basis)

| | 1982 (52 Weeks) | 1981 (52 Weeks) | 1980 (53 Weeks) |
|---|---|---|---|
| Sales | $14,761,764 | $13,957,554 | $12,616,082 |
| Costs and expenses: | | | |
| Merchandise costs, including warehousing and transportation | 11,264,943 | 10,743,133 | 9,815,389 |
| Operating, general and administrative expenses | 3,019,306 | 2,777,868 | 2,448,780 |
| Depreciation and amortization | 149,754 | 130,689 | 110,202 |
| Dividend, interest and other income | (33,277) | (30,327) | (18,467) |
| Interest expense, including interest on obligations under capital leases | 69,818 | 55,583 | 44,662 |
| Total | 14,470,544 | 13,676,946 | 12,400,566 |
| Earnings from continuing operations before taxes based on income | 291,220 | 280,608 | 215,516 |
| Taxes based on income | 99,096 | 103,300 | 81,626 |
| Earnings from continuing operations | 192,124 | 177,308 | 133,890 |
| Loss from discontinued operations | | (1,439) | (8,400) |
| Net earnings | $ 192,124 | $ 175,869 | $ 125,490 |
| Earnings per share: | | | |
| Primary: | | | |
| From continuing operations | $4.15 | $3.95 | $3.03 |
| Net earnings | $4.15 | $3.91 | $2.84 |
| Fully diluted: | | | |
| From continuing operations | $4.05 | $3.87 | $3.03 |
| Net earnings | $4.05 | $3.84 | $2.84 |

Dillon's fiscal year is based on a 52—53 week year ending the Saturday nearest to June 30. However, the preceding pro forma data of the combined companies includes the results of operations of Dillon recast to coincide with the Company's fiscal year. If the pro forma data was prepared using the fiscal year of Dillon combined with the fiscal year of Kroger, the results, which are not significantly different, would have been:

**Pro Forma Combined Summary of Earnings**
(Combined on a Fiscal Year Basis)

| | 1982 (52 Weeks) | 1981 (52 Weeks) | 1980 (53 Weeks) |
|---|---|---|---|
| Sales | $14,725,566 | $13,761,097 | $12,394,006 |
| Net earnings | $ 194,339 | $ 168,398 | $ 120,496 |
| Net earnings per share (fully diluted) | $4.09 | $3.68 | $2.72 |

The pro forma per share computations are based on the exchange ratio of .8539 of a share of the Company's common stock for each share of Dillon common stock. The pro forma information is not necessarily indicative of results which would have occurred if the companies had actually been combined for the periods presented.

On January 25, 1983, shareowners also approved an amendment to the Company's Amended Articles of Incorporation increasing the number of authorized shares of Common Stock from 50 million to 125 million shares.

## Segments of Business

The Company's segments of business information for 1982, 1981 and 1980 is included on page 32.

## Changing Prices (Unaudited)

The Company's information regarding the impact of changing prices on a constant dollar and current cost basis is presented on pages 41, 42 and 43.

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Shareowners and Board of Directors
The Kroger Co.

We have examined the consolidated balance sheets of The Kroger Co. and Consolidated Subsidiary Companies as of January 1, 1983 and January 2, 1982, and the related consolidated statements of earnings, shareowners' equity, and changes in financial position for the years ended January 1, 1983, January 2, 1982 and January 3, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of The Kroger Co. and Consolidated Subsidiary Companies at January 1, 1983 and January 2, 1982, and the consolidated results of their operations and changes in their financial position for the years ended January 1, 1983, January 2, 1982 and January 3, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers + Lybrand

Coopers & Lybrand
Cincinnati, Ohio
February 18, 1983

## SUPPLEMENTAL INFLATION ADJUSTED FINANCIAL INFORMATION (Unaudited)

In an effort to produce financial information that discloses the effects of inflation, the Financial Accounting Standards Board (FASB) issued Statement No. 33, Financial Reporting and Changing Prices, which requires companies to explain the effect of inflationary factors on their operations by adjusting historical financial information using two different methods. This information includes disclosures about the effects of changes in both general inflation (constant dollars) and specific prices (current cost).

The constant dollar method measures the effect of the general rate of inflation on the Company's earnings, by expressing certain historical cost amounts in units of the same purchasing power as measured by the Consumer Price Index for All Urban Consumers (CPI-U). This measure of general inflation encompasses a wide range of commodities and is not necessarily representative of the inflation effect upon our business. The current cost method attempts to reflect the changes in prices of the resources employed specifically in our operations. These methods involve the use of assumptions, approximations and estimates. The results should not be viewed as precise measurements of the effects of inflation.

Earnings derived under these methods include adjustments to merchandise costs and depreciation and amortization expense for these inflationary factors. The effects of inflation, on merchandise costs, have been recognized in the historical financial statements, to some extent, due to the use of the LIFO method of inventory valuation.

The accompanying statement of earnings and five-year summary of selected financial data were prepared to reflect those inflationary factors due to increases in the historical costs of merchandise and depreciation and amortization and their related assets. Amounts prior to 1982, have been adjusted to average 1982 dollars by use of the CPI-U.

The restated net assets result in an indicated increase in shareowners' equity which was greater on a general inflation basis than on a specific price basis. The gain from decline in purchasing power of net amounts owed is primarily attributable to the debt which has been used to finance inventories and capital expenditures. During a period of inflation, holders of monetary assets suffer an unrealized loss of general purchasing power, while holders of monetary liabilities experience an unrealized gain.

Both the constant dollar method and the current cost method result in lower net income than reported in the primary financial statements. Taxation of earnings under present tax law reduces the amount of earnings available to support future business growth because these changing prices adjustments are not deductible for income tax purposes. The effects of the higher taxation of earnings are demonstrated in the effective tax rates shown on the supplementary income statement.

# CONSOLIDATED STATEMENT OF EARNINGS FROM CONTINUING OPERATIONS ADJUSTED FOR CHANGING PRICES

For the Year Ended January 1, 1983 (52 Weeks) (In thousands of dollars)

| | As Reported In The Primary Statements (Historical Costs) | Adjusted For General Inflation (Average 1982 Constant Dollars) | Adjusted For Changes In Specific Prices (1982 Current Costs) |
|---|---|---|---|
| Sales | $11,902,000 | $11,902,000 | $11,902,000 |
| Costs and Expenses: | | | |
| Merchandise costs, including warehousing and transportation | 9,048,000 | 9,058,000 | 9,060,000 |
| Operating, general and administrative expenses | 2,324,000 | 2,324,000 | 2,324,000 |
| Rent | 168,000 | 168,000 | 168,000 |
| Depreciation and amortization | 121,000 | 146,000 | 158,000 |
| Dividend and interest income | (26,000) | (26,000) | (26,000) |
| Interest expense, including interest on obligations under capital leases | 59,000 | 59,000 | 59,000 |
| Total | 11,694,000 | 11,729,000 | 11,743,000 |
| Earnings from continuing operations before taxes based on income | 208,000 | 173,000 | 159,000 |
| Taxes based on income | 64,000 | 64,000 | 64,000 |
| Earnings from continuing operations | $ 144,000 | $ 109,000 | $ 95,000 |
| Effective tax rate—taxes based on income | 30.9% | 37.0% | 40.3% |
| Gain from decline in purchasing power of net amounts owed | | $ 51,000 | $ 51,000 |
| Decrease in specific prices of inventories and property, plant and equipment | | | $ (30,000) |
| Less effect of increase in general prices | | | 102,000 |
| Excess of decrease in specific prices over increase in general prices | | | $ (132,000) |

At January 1, 1983 specific prices of inventories totaled $1,089,000 and specific prices of property, plant and equipment, net of accumulated depreciation totaled $1,731,000.

The adjustment to merchandise costs, including warehousing and transportation, in the supplemental income statements is less than one percent, which reflects the Company's use of the LIFO method of accounting for approximately 71% of its inventories. The difference results primarily from restating the remaining inventories to a current cost equivalent.

## FIVE-YEAR COMPARISON OF SELECTED FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

(In thousands of average 1982 dollars, except per share amounts)

| | 1982 | 1981 | 1980(a) | 1979 | 1978 |
|---|---|---|---|---|---|
| Sales | $11,902,000 | 11,958,000 | 12,085,000 | 12,008,000 | 11,582,000 |
| Constant Dollar Data: | | | | | |
| Earnings from continuing operations | $ 109,000 | 93,000 | 49,000 | 46,000 | 16,000 |
| Primary earnings per share from continuing operations | $ 3.68 | 3.28 | 1.76 | 1.65 | .59 |
| Net assets at year-end | $ 1,593,000 | 1,456,000 | 1,374,000 | 1,269,000 | 1,141,000 |
| Current Cost Data: | | | | | |
| Earnings from continuing operations | $ 95,000 | 81,000 | 40,000 | 32,000 | |
| Primary earnings per share from continuing operations | $ 3.21 | 2.87 | 1.46 | 1.17 | |
| Net assets at year-end | $ 1,437,000 | 1,586,000 | 1,504,000 | 1,349,000 | |
| Excess of increase or decrease in specific prices over increase in general prices | $ (132,000) | (90,000) | 44,000 | (12,000) | |
| General Information: | | | | | |
| Gain from decline in purchasing power of net amounts owed | $ 51,000 | 105,000 | 134,000 | 144,000 | 99,000 |
| Dividends per share | $ 1.76 | 1.67 | 1.63 | 1.68 | 1.32 |
| Market price per share at year-end | $ 38⅝ | 26⅝ | 24¼ | 23⅞ | 25⅜ |
| Average consumer price index | 289.1 | 272.4 | 246.8 | 217.4 | 195.4 |

(a) Fifty-three weeks

## NOTES TO SUPPLEMENTARY DATA ON CHANGING PRICES

### Accounting Policies

The supplementary data on changing prices is based upon the historical financial information as reported in the primary financial statements adjusted for (1) general inflationary factors relating to property, plant, and equipment and inventories and (2) the changes in specific prices relating to these items.

Depreciation expense was calculated using the same methods and rates of depreciation as used in the historical financial statements.

Income tax expense has not been modified for any timing differences, allocations or adjustments that may result from applying the different methods in preparing the supplementary data.

No attempt has been made to calculate the benefit derived from additional realization of selling price increases necessitated by a higher level of cost of operations resulting from the application of the constant dollar or current cost adjustments to the original historical cost of property, plant, and equipment and inventories.

### Constant Dollars

The supplementary data on a constant dollar basis is expressed in average for the year dollars and reflects adjustments that have occurred in the purchasing power of the dollar as measured by the CPI-U published by the Bureau of Labor Statistics. These amounts do not purport to represent appraised values or any other measure of current value.

### Current Cost

The current cost of inventories, and merchandise costs, represents the cost of purchasing the goods at year-end prices for inventory and prices in effect at date of sale for merchandise costs. They are estimated based upon the latest prices and information of merchandise costs available as of January 1, 1983.

The current cost of property, plant, and equipment and the related depreciation expense are estimates of what the Company's existing assets would cost at the respective balance sheet dates. The amounts for 1979, 1980 and 1981 have been adjusted to average 1982 dollars based on the CPI-U. Several methods, including indexation, direct pricing and application of square footage building and equipment costs based upon current merchandising and facility concepts, were used in estimating these amounts. These values represent the estimated current costs of existing assets and do not consider technological improvements and efficiencies associated with the normal replacement of productive capacity.

# TEN YEAR SUMMARY

| | 1982 | 1981 | 1980 |
|---|---|---|---|
| **Operations** (In thousands of dollars, except per share amounts) | | | |
| Sales | $11,901,892 | 11,266,520 | 10,316,741 |
| Costs and Expenses | $11,693,934 | 11,072,231 | 10,154,181 |
| Earnings from Continuing Operations before Taxes Based on Income | $ 207,958 | 194,289 | 162,560 |
| Taxes Based on Income | $ 64,200 | 64,805 | 59,774 |
| Earnings from Continuing Operations | $ 143,758 | 129,484 | 102,786 |
| Discontinued Operations | $ | (1,439) | (8,400) |
| Net Earnings | $ 143,758 | 128,045 | 94,386 |
| Dividends on Common Stock | $ 49,799 | 43,771 | 38,768 |
| Per Share | | | |
| Earnings From Continuing Operations | $ 4.64 | 4.43 | 3.71 |
| Discontinued Operations | $ | (.05) | (.30) |
| Net Earnings | $ 4.64 | 4.38 | 3.41 |
| Dividends on Common Stock | $ 1.76 | 1.57 | 1.40 |
| **Balance Sheet Statistics** (In thousands of dollars, except per share amounts) | | | |
| Inventories | $ 949,844 | 810,946 | 775,268 |
| Working Capital | $ 362,610 | 396,245 | 241,904 |
| Property, Plant and Equipment, net | $ 1,287,818 | 1,052,764 | 884,617 |
| Total Assets | $ 2,729,559 | 2,405,290 | 1,998,494 |
| Long-Term Debt | $ 538,417 | 422,816 | 268,146 |
| Obligations under Capital Leases | $ 146,788 | 134,523 | 117,819 |
| Shareowners' Equity | $ 871,053 | 807,471 | 671,366 |
| Per Share of Common | $ 29.32 | 27.06 | 24.17 |
| **Other Statistics** (In thousands of dollars, except stock prices) | | | |
| Cash Provided from Operations | $ 236,945 | 313,197 | 260,408 |
| Capital Expenditures | $ 388,575 | 260,218 | 239,130 |
| Rent | $ 168,050 | 144,002 | 130,632 |
| Interest Expense | $ 58,720 | 45,778 | 35,736 |
| Common Stock Price Range | $ 23⅜-47¼ | 19¼-27⅞ | 14-23¾ |
| **Retail Facilities** (Areas in thousands of square feet) | | | |
| Food Stores | | | |
| Opened | 101 | 111 | 118 |
| Remodeled | 85 | 57 | 49 |
| Closed | 160 | 98 | 107 |
| Stores—End of Year | 1,199 | 1,258 | 1,245 |
| Total Area | 37,142 | 36,985 | 34,529 |
| Drug Stores | | | |
| Opened and Acquired | 77 | 57 | 42 |
| Closed | 21 | 64 | 32 |
| Stores—End of Year | 563 | 507 | 514 |
| Total Area | 6,261 | 5,715 | 5,841 |

(a) In 1979, the Company changed from the First-In, First-Out (FIFO) method of valuing certain of its grocery inventories to the Last-In, First-Out (LIFO) method.

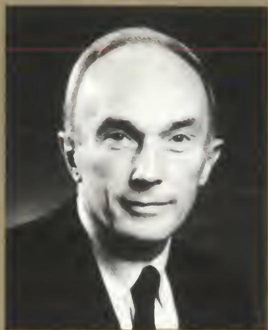
(b) 1976 and 1980 were fifty-three-week years.

(c) Amounts for 1973 were not restated for a change in accounting for leases and for the consolidation of previously unconsolidated subsidiaries. Restatement would not have a material effect on the amounts reported.

| 1979 | 1978 | 1977 | 1976 | 1975 | 1974 | 1973 |
|---|---|---|---|---|---|---|
| 9,029,315 | 7,828,071 | 6,747,553 | 6,182,991 | 5,421,296 | 4,893,384 | 4,319,960 |
| 8,882,807 | 7,674,815 | 6,640,881 | 6,097,816 | 5,362,417 | 4,811,772 | 4,266,267 |
| 146,508 | 153,256 | 106,672 | 85,175 | 58,879 | 81,612 | 53,693 |
| 60,787 | 68,660 | 46,649 | 37,250 | 24,822 | 36,729 | 23,777 |
| 85,721 | 84,596 | 60,023 | 47,925 | 34,057 | 44,883 | 29,916 |
| | | | | | | |
| 85,721 | 84,596 | 60,023 | 47,925 | 34,057 | 44,883 | 29,916 |
| 34,524 | 24,218 | 20,551 | 18,577 | 18,298 | 18,088 | 17,461 |
| 3.13 | 3.11 | 2.22 | 1.78 | 1.26 | 1.66 | 1.11 |
| | | | | | | |
| 3.13 | 3.11 | 2.22 | 1.78 | 1.26 | 1.66 | 1.11 |
| 1.26 | .89 | .76 | .69 | .68 | .67 | .65 |
| 780,698 | 697,327 | 623,645 | 558,347 | 500,110 | 490,640 | 438,219 |
| 264,537 | 308,677 | 294,157 | 298,528 | 216,524 | 158,418 | 229,095 |
| 725,220 | 621,292 | 570,989 | 544,472 | 534,979 | 526,439 | 344,088 |
| 1,786,691 | 1,653,029 | 1,528,721 | 1,445,302 | 1,302,049 | 1,269,045 | 1,077,517 |
| 233,937 | 223,736 | 238,892 | 259,561 | 213,085 | 164,498 | 151,471 |
| 106,055 | 105,131 | 96,077 | 94,343 | 85,110 | 80,998 | |
| 611,328 | 554,507 | 489,972 | 455,273 | 423,721 | 418,477 | 392,852 |
| 22.14 | 20.34 | 18.06 | 16.85 | 15.71 | 15.51 | 14.57 |
| 156,673 | 162,733 | 115,872 | 106,441 | 65,673 | 154,150 | 36,620 |
| 176,933 | 114,504 | 96,417 | 81,906 | 70,161 | 116,720 | 70,244 |
| 112,527 | 99,785 | 88,363 | 82,611 | 74,632 | 67,341 | 71,925 |
| 29,385 | 29,983 | 30,626 | 27,713 | 25,438 | 23,384 | 12,199 |
| 17½-27 | 12¾-18½ | 11⅝-14⅜ | 8⅞-12⅝ | 7⅞-12⅛ | 7⅛-12½ | 7½-12¼ |
| 88 | 104 | 98 | 90 | 71 | 83 | 80 |
| 91 | 58 | 35 | 33 | 40 | 84 | 68 |
| 56 | 90 | 83 | 137 | 92 | 127 | 160 |
| 1,234 | 1,202 | 1,188 | 1,173 | 1,220 | 1,241 | 1,285 |
| 32,460 | 30,673 | 28,642 | 26,850 | 26,415 | 25,594 | 24,706 |
| 38 | 7 | 11 | 20 | 56 | 64 | 36 |
| 21 | 48 | 41 | 13 | 27 | 35 | 19 |
| 504 | 487 | 528 | 558 | 551 | 522 | 493 |
| 5,657 | 5,591 | 6,108 | 6,399 | 6,234 | 5,633 | 4,883 |

# BOARD OF DIRECTORS

**William D. Atteberry,** 63, is Chairman of the Board of Eagle-Picher Industries, Inc.
He is a member of the Financial Policy, Executive and Pension Plan Committees. Director since 1980.



**Philip E. Beekman,** 51, is President of Joseph E. Seagram & Sons, Inc. and The Seagram Company Ltd.
He is a member of the Compensation and Corporate Responsibility Committees. Director since 1978.

**Raymond B. Carey, Jr.,** 56, is Chairman of the Board and President of American District Telegraph Company.
He is a member of the Compensation and Nominating Committees. Director since 1977.

**John A. Cornett, Jr.,** 58, is Vice Chairman of The Kroger Co.
He is a member of the Pension Plan Committee. Director since 1982.

**Ray E. Dillon, Jr.,** 58, is Chairman of the Board of Dillon Companies, Inc.
He is a member of the Financial Policy Committee. Director since 1983.

**Dr. Patricia Shontz Longe,** 49, is an Economist and Professor of Business Administration at the University of Michigan, and senior partner of Imeco-Longe.
She is chairman of the Nominating Committee and a member of the Audit Committee. Director since 1977.

**T. Ballard Morton, Jr.,** 50, is Vice Chairman of Cosmos Broadcasting Corporation.
He is chairman of the Corporate Responsibility Committee and a member of the Audit and Executive Committees. Director since 1968.

**Thomas H. O'Leary,** 49, is Vice Chairman of Burlington Northern Inc.
He is chairman of the Audit Committee and a member of the Financial Policy Committee. Director since 1977.

**John D. Ong,** 49, is Chairman, President and Chief Executive Officer of The B.F. Goodrich Company.
He is chairman of the Financial Policy Committee and a member of the Nominating Committee. Director since 1975.

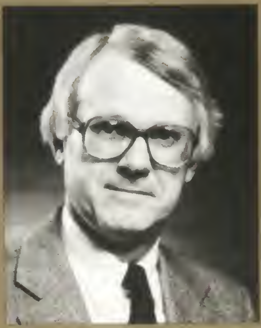
**Joseph A. Pichler,** 43, is President of Dillon Companies, Inc.
He is a member of the Corporate Responsibility Committee. Director since 1983.

**Richard W. Dillon,** 55, is Vice Chairman of the Board of Dillon Companies, Inc. He is a member of the Pension Plan Committee. Director since 1983.

**Lyle Everingham,** 56, is Chairman of the Board and Chief Executive Officer of The Kroger Co. He is chairman of the Executive Committee and a member of the Nominating Committee. Director since 1970,

**James P. Herring,** 68, is the retired former Chairman of the Board of The Kroger Co. He is a member of the Compensation, Executive and Nominating Commitees. Director since 1968.

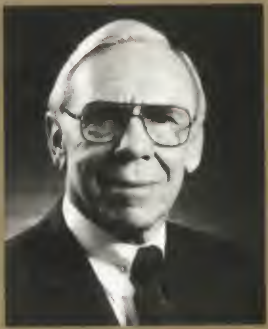
**Jackson C. Hinds,** 61, is Chairman of the Board and Chief Executive Officer of Entex, Inc. He is chairman of the Pension Plan Committee and a member of the Financial Policy and Executive Committees. Director since 1975.



**William G. Kagler,** 50, is President of The Kroger Co. He is a member of the Executive and Corporate Responsibility Committees. Director since 1982.

**Dr. W. George Pinnell,** 60, is Executive Vice President of Indiana University. He is chairman of the Compensation Committee and a member of the Financial Policy Committee. Director since 1966.

**Morley P. Thompson,** 56, is President of Baldwin-United Corporation. He is a member of the Audit, Executive and Financial Policy Committees. Director since 1975.



**Russell L. Wagner,** 66, is the retired former Chairman of the Board and Chief Executive Officer of NLT Corporation. He is a member of the Compensation and Audit Committees. Director since 1980.

# CORPORATE OFFICERS

**Raymond F. Abaray**
Vice President

**Robert W. Braunschweig**
Vice President

**David A. Burt**
Group Vice President

**John A. Cornett**
Vice Chairman

**Lyle Everingham**
Chairman of the Board and Chief Executive Officer

**Jack G. Hudson**
Vice President and Controller

**Arthur Juergens**
Group Vice President

**William G. Kagler**
President

**George W. Keith**
Vice President, Chairman, SupeRx Drug Stores

**Lorrence T. Kellar**
Vice President and Treasurer

**Richard M. Koster**
Senior Vice President

**George A. Leonard**
Vice President, Secretary and General Counsel

**Robert E. Saffron**
Vice President

**William J. Sinkula**
Group Vice President

**John L. Strubbe**
Group Vice President

**Charles L. Thomas**
Senior Vice President

**Gerald L. Wolken**
Vice President, President, SupeRx Drug Stores

## FORM 10-K

A copy of the Company's 1982 report to the Securities and Exchange Commission, Form 10-K, is available to shareowners on request by writing: Lorrence T. Kellar, Vice President and Treasurer, The Kroger Co., 1014 Vine Street, Cincinnati, Ohio 45201.

## ANNUAL MEETING

The annual meeting of shareowners will be held at Music Hall, 1243 Elm Street, Cincinnati, Ohio, on May 19, 1983, at 10 a.m.

## TRANSFER AGENT AND REGISTRAR

The First National Bank of Cincinnati
First National Bank Center
Fifth and Walnut Streets
Cincinnati, Ohio 45201
Telephone: 513-632-4648

## INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Coopers & Lybrand
201 East Fourth Street
1500 Atrium One
Cincinnati, Ohio 45202

## DIVIDEND REINVESTMENT AND OPTIONAL CASH PURCHASE PLAN

The Dividend Reinvestment Plan permits shareowners to reinvest their dividends in Kroger common stock without service charges or brokerage fees. In addition, participating shareowners, under the Voluntary Contribution provision, may make cash purchases of additional Kroger common stock on the same cost-free basis. Full details about the plan are available by writing to the transfer agent, above, or to The Kroger Co., Investor Relations Department,
1014 Vine Street,
Cincinnati, Ohio 45201.

The Kroger Co.,
1014 Vine Street,
Cincinnati, Ohio 45201
(513) 762-4000